Income Distribution, Taxation and Social Security: Issues of Current Concern

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TAXATION AND SOCIAL SECURITY:
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edited by

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Proceedings of a Seminar held on 29 November 1985

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CONTENTS

Editor's Foreword 1

1. Bettina Cass
Opening Address : The Case for Review of Aspects of the Australian Social Security System 5

2. Peter Whiteford
Horizontal Equity in Tax Transfer Arrangements 19

3. Joan Vipond
Poverty After Housing Costs 69

4. Keith Windschuttle
Older Workers, Unemployment and Welfare Payments 89

5. Adam Jamrozik
Social Policy : Are there Alternatives to the Welfare State? 109

Discussion Forum 143

EDITOR'S FOREWORD

This report contains the proceedings of a one-day public seminar, organised by the Social Welfare Research Centre and held at the University of New South Wales on 29 November, 1985. The aim of the seminar was to create an opportunity for presenting to the public some important issues of concern, which are currently in the forefront of the debate on social welfare policy - **Income Distribution, Taxation, and Social Security** - and invite wider participation in discussions of these issues.

We were disappointed that the Minister for Social Security, the Honourable Brian Howe, was not able to attend the seminar and present the opening address as he had intended to do. Unfortunately, the sitting of the House of Representatives was extended and his presence was required there. However, we were fortunate to have Bettina Cass, Associate Professor in the Department of Social Work, University of Sydney, to fill the gap and present the opening address. As recently announced, Professor Cass is to conduct over the next two years a review of the Australian social security system, and it was most opportune that she introduced the subject of the review at the seminar, as the papers that followed addressed a number of issues relevant to the review.

Professor Cass focussed her address on three aspects of the forthcoming review: the reasons for the review; the theoretical framework of the review; and the timing of the review. She pointed out that while there had been changes in the social security system over the past years, no major review had taken place since the 1940s. Now, changes in the economy and in the demographic composition of the Australian population (e.g., increase in sole-parent families, growing population of the elderly) - all these needed a thorough re-assessment of policies and provisions to meet changing conditions and changing needs.

The theoretical framework for the review, she said, would aim to place these issues of social security in a wider context of the labour market, job creation programmes, and the provision of services such as child care and housing. The problems of poverty would be addressed in relation to all those issues. The timing of the review was quite appropriate, as it would be conducted in the context of the current and projected reforms in taxation, occupational superannuation, and labour market programmes.

The overall aim of the review would be to develop a longer-term perspective on the social security system in Australia, and to formulate proposals for shorter-term steps that would be necessary to make towards the longer-term goals.

Peter Whiteford's paper, **Horizontal Equity in Tax-Transfer Arrangements,** focussed on the major features of personal income tax and social security systems, and on the interaction between the two systems as **key instruments of distributional policy.** As will be seen in the text, this extensive and analytical paper covers a wide range of issues of relevance to social welfare policy concerning families: family allowances, dependent spouse rebate, sole parent rebate, tax thresholds, and income-tested social security payments.

Horizontal equity is seen by Whiteford to be based on the principle that 'people in like circumstances should be treated alike'. The paper identifies a number of issues in which there is an 'apparent conflict between vertical and horizontal equity concerns. It also examines extensively the merits of various arguments and proposals. Whiteford emphasizes that 'the interaction between the tax and social security systems has not only indirect effects on families' circumstances but also very significant direct effects'.

Whiteford points out that taxation and social security instruments are commonly perceived to be 'inherently different in their nature'. Yet, he argues,

> ...both cash transfers and assistance through reductions in tax liabilities involve calls on reserves and have similar implications for the Budget deficit or surplus. Neither cash transfers nor tax assistance add to or detract from the size of the Government or public sector in the sense of involving the Government in itself using up real resources...Rather the two systems simply redistribute disposable income between individuals and families.

The paper explores the features of various options and arguments for tax and social security reforms, as well as dispelling a few myths about the issues involved. Comprehensive statistical tables provide relevant data. Joan Vipond's paper, **Poverty after Housing Costs,** is a summary of findings from recently completed research at the Social Welfare Research Centre. Complete results of this research will be published shortly as a report in the SWRC Reports and Proceedings series.

The paper examines the effects of the housing costs on the incidence of poverty in Australia, using as the basis for analysis the Henderson poverty line and the findings of the Henderson Commission in 1972-73. In comparing these findings with the results of the ABS Income and Housing

Survey of 1981-82, the analysis shows that while the proportion of the population living in poverty (i.e. below the poverty line, as defined by Henderson) has increased only slightly between 1972-73 and 1981-82, that proportion has increased considerably once the cost of housing has been taken into consideration. The incidence of poverty (after housing costs) has also shifted from the elderly population to the young, affecting mainly young single persons, young families with dependent children, and single-parent families.

It is possible, Vipond argues, that poverty estimates for 1981-82 would underestimate the extent of poverty in 1985, because unemployment levels in 1985 were higher than in 1981-82 and interest rates on housing loans were at the ceiling levels. Overall, it is apparent that the economic system and social security system have not been able to cope with the new forms of poverty among younger people since the mid-1970s. Solutions to this problem might need to be sought in economic performance as well as in the social security system.

Keith Windschuttle's paper, **Older Workers, Unemployment and Welfare Payments**, addresses the issue of exceptionally high rate of decline labour force participation by older workers since the early 1970s. It also examines various explanations that researchers (mainly labour economists) have given to that decline.

Early withdrawal from the labour force, espe ally by men aged 55 years and over, has been the most dramatic change in employment since the early 1970s and, in Windschuttle's view, it represents a social change of major proportions. Explanations of this phenomenon have varied widely. Some labour economists have presented it as 'voluntary retirement'; others, as 'involuntary retirement', interpreted as 'hidden unemployment'. Some researchers have sought the cause of early retirements in the social security system, that is, in the availability of invalid pensions, service pensions, age pensions.

Windschuttle has put some of these assunmptions to a test, and his analysis shows that the validity of the assumptions can be seriously questioned. Certainly, there does not seem to be any valid reason to suggest that the availability of social security pensions has been a factor in early retirements. He concludes that,

> One of the problems of understanding social phenomena from the methods [used by the researchers and examined in his paper] is that they involve jumping from statistically-recorded observations of behaviour to deductions about human motives.

The labour market programmes introduced by governments have had little, if any effect on the participation rates of older workers. As the numbers of early withdrawals from the labour force are likely to remain high, measures aimed at facilitating the return into employment by these people as well as new forms of income support might be necessary.

The last paper, **Social Policy : Are There Alternatives to the Welfare State?** was my own contribution. The aim of the paper was to place the issues raised in the earlier papers into a wider perspective. It is clear that many assumptions and beliefs held today about social policies of governments, social security provisions and welfare services in a rather taken-for-granted fashion are seriously challenged in some quarters. The paper examines some of the reasons for this challenge and attempts to evaluate their merit and validity.

The arguments presented in the paper are based on the premise that the welfare state entails many more functions than it is generally acknowledged both in common perception and much of the current research. It was therefore necessary to widen perception and public debate so that the less visible but very important functions of the welfare state can be identified. It would then be found that some of these functions are not only essential to the economy but they also accord considerable material benefits to many people who are not readily perceived as 'welfare recipients'.

The seminar attracted a participation of close to 100 persons - academics, public service personnel, representatives of the non-government welfare sector, and interested individuals. The discussion following each presented paper was lively, and many pertinent questions and comments were raised. A brief summary of questions and comments is given in the last part of this report. The papers published here are much more detailed than the presentations at the seminar. Due to constraints of time, the speakers restricted their presentations to the main issues which they addressed. We hope, therefore that the papers and the summary of discussions reproduced in this report will be of value to the readers who did not attend the seminar as well as to those who attended.

OPENING ADDRESS

THE CASE FOR REVIEW OF ASPECTS OF THE AUSTRALIAN SOCIAL SECURITY SYSTEM

Bettina Cass
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I am pleased and honoured to provide the opening remarks at the beginning of this very significant seminar on aspects of income distribution, taxation and social security. It is a disappointment to all of us that the Minister for Social Security, Mr Brian Howe, is not able to open the Seminar as planned, and place the proceedings in the context of current plans for review of aspects of the social security system. However, I will take the opportunity suddenly presented to me to raise some issues which have placed the need for review on the research and policy agenda.

My remarks are informed by a policy perspective concerned with issues of redistribution and the role of the tax/benefit system, in conjunction with other services, notably labour market training, job creation and housing policies in redistributing income, resources and job opportunities to those with the weakest market power at all stages of the life-cycle. Three questions will be raised?

1. What is the case for review of aspects of the Australian social security system?

2. What are the theoretical perspectives which I see as informing the issues to be addressed in the review?

3. Is the time right for a review?

The case for review

The major components of the Australian security system were consolidated during and immediately after World War II, adding child endowment, widows pension, unemployment, sickness and special benefit to age and invalid pension which had been introduced in 1908. In the 1970s and 1980s were added supporting parents benefit, payments for people caring for a sick, aged or incapacitated spouse or relative, and a range of payments for disabled people. In 1976 child endowment payments were increased and renamed family allowances.

This comprehensive system of pensions and benefits, despite its incremental and piece-meal development, recognises many of the major categories of need caused by reduced income and usually associated with much reduced opportunity for workforce participation. Age, invalidity, sickness, unemployment, widowhood, sole care of dependent children, care of incapacitated spouse or relative and responsibility for children have been socially recognised as life circumstances requiring support from tax revenues.

Certain major principles can be identified in the Australian social security system:

- The community accepts responsibility for the provision of income support to individuals and their families unable, or not expected, to derive sufficient income from their own labour force participation or savings.
- Payments are provided as a right.
- Payments are targeted towards particular categories of "need", ie. age, sole parenthood, unemployment, sickness, invalidity etc. and within those categories, generally according to means. Although this categorisation of "needs" can be conceptualised as income support through vulnerable periods in the life-cycle, the existence of means tests has contributed another element of redistribution to low income people within the eligible categories.
- An underlying objective has been that eligibility criteria and means testing, should not create disincentives to labour force participation, the earning of income and saving for retirement. However, in the mix of categorisation and means testing, problems of disincentive have been constructed which are now widely recognised as "poverty traps".
- Support for children is provided universally, in recognition that at any level of income, people caring for children have greater needs than people without children. In addition to non-income-tested family allowances, an income-tested family income supplement is provided which is targeted to low income families with children. Both payments recognise that wages system does not take account of family responsibilities and needs.

Major economic, social, industrial and demographic changes have occurred in the decade since 1974 with significant implications for the social security system. These include:

1. Rapid increases in the rate and duration of unemployment and changes in the distribution of unemployment, affecting not only young potential workers but also older workers with family responsibilities. This has been accompanied by earlier

retirement, often involuntary, of many older workers before pension age.

2. Changes in family composition, in particular an increase in the formation of sole parent families. This trend has been observed in almost all Western and Northern European countries, including the United Kingdom, and in USA, Canada, New Zealand and Australia (Millar, 1985). Public policy responses to single parent family formation have differed. In Australia there has been a significant decrease in the labour force participation rates of single parents since 1974, commensurate with job shortage compounded by sole responsibility for children, and a corresondingly greater reliance on government income support (Cass and O'Loughlin, 1984).

3. These two trends have resulted in a large increase in the number of families with children dependent on pension or benefit. In 1973 there were approximately 180,000 children of pensioners and beneficiaries comprising 4% of dependent children in all families; in 1985 this number had increased to 779,000 children, comprising 18% of dependent children.

4. An increase in the number and change in the composition of people in poverty. The groups especially vulnerable to inadequate income as measured by the Henderson poverty line applied to the ABS 1981-82 Income and Housing Survey data were:

   - sole parent families, in particular women-headed
   - single people, particularly the young and older people
   - larger two parent families with four or more children
   - dependent children in low income families, of whom 19% were living in poverty, compared with 13% of all persons (Gallagher, 1985).

Poverty is closely associated with long-term unemployment, barriers to labour force participation (eg. sole parenthood) and with the relatively high cost of private rental housing.

5. Recognition of the impact of demographic change, including the past and projected future ageing of the population. Caution must be exercised in viewing this trend as a major concern for the social security system. In the period 1968-69 to 1982-83 less than 30% of the growth of real Commonwealth income support expenditure is attributable directly to the ageing of the population. The other 70% is accounted for by the deterioration of the economy, increase in the proportion of sole parents and other eligible categories taking up their income support entitlements and the easing of income and means tests. However, projected population growth rates over the next 15-20 years suggest that the aged population will grow somewhat more rapidly than the non-aged population (growth rates of 1.84% and 1.13% per annum respectively). It is believed that this trend entails little cause for alarm in relation to increased social security expenditures if accompanied by the maintenance of long-term productivity growth rates and with no decrease in overall tax revenues (Panel of Review of the Proposed Income and Assets Test, 1984).

6. The most significant aspect of the ageing debate is concerned not so much with increased numbers as with the changes taking place in the public/private mix of retirement income provision. Over the decade there has been a significant increase in the coverage of employees by occupational superannuation schemes. However, this coverage is unequally spread across the income and occupational distribution, favouring predominantly male, white-collar, full-time employees in higher income, higher status occupations (Jamrozik, Hoey and Leeds, 1981). The recent superannuation agreement between the government and the ACTU reflects the expectation that the wages and incomes Accord will be accompanied by extended superannuation coverage of the working population, including occupations

and industries not previously covered and providing the protections of portability, vesting and income-supported earlier retirement. These trends bring into sharp focus the relationship between insurance-based occupational superannuation schemes and the age pension in providing retirement incomes, in the medium and long-term, to various categories of older people. These categories include not only those with a history of secure, long-term, full-time labour force participation, but also those whose labour force participation has been reduced and/or interrupted by domestic and childcare responsibilities, unemployment, under-employment and casual, itinerant employment, invalidity and illness

As a result of these developments, the Australian system of pensions, benefits and children's allowances, consolidated in the post-war reconstruction period and heralded then as central to the "New Social Order", is now subjected to demands made by very different economic, social and industrial conditions.

A review of social security policy has therefore been established which will examine several broad aspects of income maintenance programs.

- **Coverage:** Is existing coverage appropriate ? Are the boundaries of historically established categories of eligibility still relevant ? Are all socially recognised needs included?
- **Adequacy:** Are existing payment levels adequate in view of recipients' varying needs and circumstances?
- **Targeting:** Are existing programs targeted effectively? Is there a case for targeting new programs and additional payments more closely on the most vulnerable groups in the population? What are the most equitable and efficient means of targeting income security programs? What are the social and economic costs of targeting mechanisms?
- **Redistribution of income:** Does the income maintenance system, in conjunction with other programs, facilitate more equal access to income and opportunities?

- **Opportunities for employment, earning income and saving:** What are the effects of income maintenance programs on people's aspirations and opportunities to become self-supporting?

- **Simplicity and access :** Can the system be readily understood and does it facilitate people's access to their entitlements? Can it be administered fairly and effectively?

  The mix of public and private income support for the aged and retired: What are the most equitable combinations of insurance-based retirement programs, private savings and income security measures which will provide comprehensive and adequate support for aged people in various circumstanes?

- **Community awareness:** Is there widespread understanding of the central role of the social security system in redistributing income and opportunities for participation in society? This is a particularly important issue, bound up with the necessity to scrutinise and reject the view that social security recipients constitute a separate and distinct category from tax-payers. Not only is there considerable overlap and continuity at any one time and over the year between beneficiaries and taxpayers (bringing into question the distinction between the "supporters" and the "supported") but a longer view illuminates continuities over the life-cycle.

The review will focus on three aspects of the social security system.

- Income support for families with children.

- Social security policies and workforce participation, in relation to the unemployed, sole parents and disabled people.

- The connections between social security and insurance-based income support measures, notably superannuation.

The review of income support for families will focus on identifying the oncome support needs of children in all families, both single parent and two parent. This focus will raise the question of whether and how increased assistance for children should be targeted towards families within particular categories of need. A second related issue involves the identification of the relative merits of cash payments and taxation assistance in child income support. The most appropriate and adequate mix of support of sole parents will be examined, taking into account income-tested payments for the parent, the range of universal and targeted transfers for children, and the role of child maintenance payments from non-custodial parents in increasing the overall adequacy of the income of sole parent families. Finally, the question of sole parent beneficiaries' transition to workforce participation will be explored, so as to identify programs which might facilitate such participation.

The key issues in the review of social security and workforce participation are the adequacy ncome support for the long-term jobless; the appropriateness urrent income support programmes for older peple without jobs and t yet eligible for age pension; identification of possible links between social security support and labour market programmes facilitating return to the workforce for unemployed people, sole parents and people with disabilities.

In the review of social security and insurance-based income support measures emphasis will be placed on the income needs of aged people in various circumstances: differentiated by gender, family composition, housing tenure and occupational superannuation entitlements. The policy issues are concerned with ther respective roles of the age pension and insurance-based measures (particularly superannuation) in retirement income provision, especially following anticipated changes in superannuation coverage and benefits. The question to be answered is how might superannuation and social security arrangements be most equitably integrated?

A theoretical basis for the Review

For guidance I look to poverty research and the theoretical perspective which explains most powerfully the extent and composition of the population most affected by inadequate income and resources and those most excluded from conventional forms of economic and social participation.

In addition, I must add that I hold the assumption that the social security system alone cannot be expected to bear the total brunt of the economic and social costs of labour market change. A broader perspective must appreciate the inter-relationship of social security with labour market and job creation programmes, and with child care and housing programmes in redistributing income, resources and job opportunities. But the review itself must necessarily focus on the social security system.

A reiteration of the groups most vulnerable to poverty in 1981-82 highlights the necessity for such an approach. The poorest groups are :

- single-parent families, in particular female-headed families
- single people, especially the young (aged 15-19), and older people 60 years and over (in particular older women)
- married couple families with four or more children
- the long-term jobless
- low income people, particularly pensioners beneficiaries and low paid working families in private rental accommodation.

Data from the 1981-82 ABS Survey of Income and Housing demonstrate clearly the relationship between poverty and labour force participation. There are very low rates of poverty (never higher than 6%) in income units where an adult is employed full-year, full-time. In contrast, poverty rates increase substantially where the adult is employed part-time, especially in the case of single parents (30% in poverty). Unemployment for a full year is is associated with poverty rates of 62-64% for single parents and married couple families, and a full year spent outside the labour force has an even greater impoverishing effect on single parents (66% in poverty). Recorded and unrecorded unemployment are significantly associated with high levels of poverty. But the next step is to identify the factors determining the population groups most likely to be either unemployed or outside the labour force and to have a history of interrupted labour force participation.

Class inequalities, gender inequalities and life-cycle factors interact in determining the profile of people in poverty in the 1980s. Class explanations hold that individuals and their dependants who suffer labour market disadvantages and lack of job qualifications, whose job histories are characterised by insecurity and relatively low pay, have a high risk of unemployment, lower than average rates of private home ownership, are unlikely to have occupational retirement benefits, and therefore risk poverty at various periods in their life-cycle.

Gender-based explanations of poverty emphasise the inequalities resulting from a division of labour which reinforces women's dependency as household workers and child carers. Non-market caring work is accorded no monetary value but is used to legitimate women's industrial marginality, discontinuous labour force participation and relatively low pay in sex-segmented occupations and industries. These inequalities have their effect through the female life-cycle, for single women, mothers eithout a co-resident male partner, older women - as the poverty figures highlight. Similarly, data on housing occupancy show women's significant disadvantages in access to private home ownership and their greater rates of tenancy, particularly in the private rental market.

A third element is required for a comprehensive explanation of the causes of poverty. Recent Australian research has noted a shift in the most vulnerable period of the life-cycle towards families with dependent children, resulting in a marked increase in children's poverty (8% in 1972-73, 19% in 1981-82). This has result from the convergence of two processes: the increased proportion of single-parent families dependent on social security; and the impact of labour market downturn on married couples with children, drawing an increased proportion into the social security system.

In the period since 1976 which saw increased need by families for adequate income security, the real value of all components of income support for children deteriorated because of lack of indexation. In the same period, the real value of the base rate of pension (which is indexed) rose. As a result, all families with children lost ground in relation to families without children in the same income class, and single-parent families, larger families and families with unemployed breadwinners were most adversely affected.

While the issue of children's needs is clearly connected with class and gender explanations of poverty, it raises a separate consideration: the necessity for adequate income support for children through the tax/benefit system - for adequate redistribution to that period of the life-cycle which is held to be legitimately dependent.

These three components of a comprehensive explanation of the structure of poverty point to the three areas of income security policy previously identified:

1. Income support for families with children, both through the period of childen's dependency and with special attention given to families without a workforce participant, single parent families and low paid working families.

2. Identification of the various needs of the long-term unemployed, and more generally, people of workforce age who are outside the labour force because of unemployment, single parenthood, disability - needs differentiated by age, gender, domestic and caring commitments, housing tenure and by aspirations for training, retraining and workforce re-entry. We cannot assume that all people outside the labour force wish to, or are able to re-enter paid employment.

   Income support could be differentiated on the one hand as community support for people unable because of disability, or ill-health or increasing age to labour in the mainstream labour market; and on the other hand as community support for people actively engaged in socially useful caring work. Community support for adults caring for children (as sole parents), caring for handicapped and frail elderly spouses and relatives is not income support for the 'unproductive', but support for socially useful work outside of labour market transactions.

3. The most equitable mix of private and public support in old age, when, once again, labour force participation is not expected.

Is the time right for a review?

Fiscal restraint, an emphasis on differentiating the "genuinely needy" from the less deserving, and a widespread concern in Western countries about increased government outlays on social security and welfare in a period of labour market and demographic change have not generated reforms of a progressive kind. Rather, the emphasis in current reviews (such as the U.K. Fowler Report, **Reform of Social Security**) has been on increasing expenditure restraint, greater use of regressive private sector insurance, and a further demarcation of the 'deserving' and the 'undeserving'.

In Australia however, very significant issues were raised in the recent tax reform debate which enabled welfare groups, women's groups and the ACTU to place issues of poverty, redistribution, the equivalence of welfare expenditures and tax concessions centrally on the policy agenda. What the tax debates and their final outcome might do is to raise public awareness of the hidden and regressive forms of welfare (fiscal and occupational welfare) which have enabled public expenditure support to be distributed to higher income groups through the tax system. Labor government initiatives aimed at widening the tax base through taxation of capital gains and fringe benefits also addressed the disadvantages which have accrued to low i: me recipients in the tax and benefit systems. Measures to alleviate pove :y traps, to reduce effective marginal tax rates for pensioners and beneficiaries and thus to foster greater labour force participation highlight the interface of taxation, social security and labour force participation. Poverty research and the tax reform debate suggest that the time is right for a review of critical aspects of the social security system.

Conclusion

The broad objectives of the Review are to provide a longer-term perspective on priorities for the Australian social security system and to identify various steps which could be taken in the shorter term to improve the effec:iveness of the system.

The overall aim is to enable the social security system to respond fairly, adequately, effectively and relatively simply to current social, economic and industrial changes and to the new social needs which have emerged, to provide protection through the most vulnerable periods of the life-cycle, to support and facilitate opportunities for workforce participation, and to provide a more just distribution of income and life chances.

The papers to be presented at today's seminar will provide valuable background research for the Review.

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HORIZONTAL EQUITY IN TAX-TRANSFER ARRANGEMENTS

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* I am grateful for the assistance provided by Ann Harding, Alan Jordan, Jim Moore, Carol Oxley and Frankie Seymour.

The views expressed are my own and are not necessarily those of the Minister or the Department of Social Security.

1. Introduction

This paper describes the major features of the personal income tax and social security systems in Australia, discussing the parallels between the two systems and analysing their interaction.

The paper concentrates on the issue of horizontal equity - the concern that people in like circumstances should be treated alike - and discusses what this implies for the treatment of families in the tax-transfer system.

The paper reviews a number of important measures - family allowances, the dependent spouse and sole parent rebates, and income-tested social security payments for families with children - and discusses a number of often expressed concerns with these arrangements. Major concerns with current programs include the inadequacy of assistance to low income families with children, the perceived inequity of providing universal assistance to families regardless of their income, questions of the relevance of the assumptions underlying these programs to contemporary family arrangements, and the effects of these programs on incentives to work.

Some limitations of the scope of this paper should be noted. The paper concentrates on the role and objectives of certain of the structural features of the personal income taxation and social security systems. Cash transfers paid by the Department of Veterans Affairs, for example, are not discussed, nor are important services such as the provision of child care. In a paper dealing with horizontal equity, it is virtually impossible to avoid the issue of the appropriate unit for taxation and social security purposes, but in this paper that important issue is approached indirectly rather than explicitly. Finally, in discussing the concept of 'need', the paper concentrates on the relative needs of different types of families or income units, rather than the fundamental issue of determining need in relation to some concept of poverty.

2. The Interaction of the Taxation and Social Security Systems

2.1 Current provisions affecting families

The activities of Government have a profound influence on the distribution of income in Australian society.

> Governments use a wide range of measures to influence the distribution of income and economic well-being. An almost certainly incomplete list of such policies would include centralised wage fixing, tariff and other forms of protection, immigration controls, foreign investment review, business

regulation, capital market controls, free tertiary education, a whole host of policies to support home ownership, agricultrual policy, and attempted equalisation between States in the standards of public services on the basis of the reports of the Commonwealth Grants Commission.
(Centre of Policy Studies, 1985:13-14)

The two key instruments of distributional policy, however, are the taxation and social security systems. The taxation and social security systems are of particular significance, first because of the scope of these two systems and the number of people affected by them, and second, because taxation and social security policies are usually structured to serve explicit distributional goals.

One of the most important aspects of these distributional objectives is to promote the well-being of families. Directly and indirectly, the Government promotes the welfare of all Australian families through a range of social security and taxation measures. Programs specifically directed towards persons with responsibility for children include:

- **The Dependent Spouse Tax Rebate** (DSR), which is available to taxpayers with a financially dependent spouse, with a higher rate being payable to persons with one or more dependent children.
- **The Sole Parent Rebate** (SPR), for sole parent taxpayers with dependent children.
- **Family Allowances**, a non-income-tested, non-taxable payment to all families with eligible children.
- **Multiple Birth Payments**, a non-income-tested, non-taxable supplement to family allowances, payable to parents of triplets and quadruplets (and higher multiples) until the children reach six years of age.
- **Handicapped child's allowance**, a further supplement to family allowances, which may be paid to a parent or guardian of a mentally or physically handicapped child or dependent student.
- **Double orphan's pension**, which may be paid to a guardian or institution caring for an orphan.
- **Additional pension or benefit for children**, an income-tested but non-taxable payment to social security recipients with eligible children.

- **The Family Income Supplement** (FIS), a similar, income-tested, non-taxable payment to low income, non-pensioner or beneficiary families with eligible children.
- Sole **parent pensions**, which include supporting parent's benefit and Class A widow's pensions for those with children.
- **Mother's/Guardian's Allowance**, an additional income-tested, non-taxable supplement for sole parent pensioners and beneficiaries.
- Additional allowances in respect of children of recipients of **zone rebates** and **remote area allowances**, a tax rebate and social security payment respectively for persons living in certain remote areas.

Details of these programs are summarised in Table 1.

Apart from these programs specifically directed towards persons with responsibility for children, there is a wide range of additional programs whose rationale or structure reflects other aspects of family composition and which necessarily have a major impact on the well-being of different types of families. These programs include:

- **Age and invalid pensions**, which are paid either at the 'standard' rate to single persons or the 'married' rate to each of an eligible couple. The single rate is 60 per cent of the combined married rate in recognition of the economies of household sharing.
- **Wife's pension**, which may be paid to the wife of an age or invalid pensioner if she is not eligible for a pension in her own right.
- **Carer's pension**, which is payable to people providing long term care for a spouse or a near relative who is a severely handicapped age or invalid pensioner, when the carer is not eligible for age or invalid pension in his or her own right.
- Class B **widow's pension**, which is payable to older women who do not or no longer have dependent children.
- **Unemployment, sickness and special benefit**, which is paid at the same rate as the combined rate of pension to persons with spouses. Benefit payments differ from those for pensioners, as

TABLE 1 : PROVISIONS FOR FAMILIES IN THE TAXATION AND SOCIAL SECURITY SYSTEMS

Provision	Eligible Group	Level of Assistance (at Nov 1985)	No of Recipients (at 30 June 1985)	Cost (1984-85)	Income Tested	Taxed
Dependent Spouse/Daughter/ Housekeeper Rebate - with children - without children	Taxpayers with a financially dependent spouse, with and without dependent children	 $1,030 per year $ 830 per year	 768,000[a] families 463,000[a] families	 $649.0m[a] $285.2m[a]	 No[b] No[b]	 N.A. N.A.
Sole Parent Rebate	Sole parent taxpayers	$ 780 per year	123,000[a] families	$ 76.7m[a]	No[b]	N.A.
Family Allowances	Parent, guardian or institution with custody or care of children under 16 years, dependent student 16 to 18 years, dependent student 18 to 24 years and eligible for income-tested payment	$ 22.80 per month - 1 child $ 55.35 per month - 2 children $ 94.35 per month - 3 children $133.35 per month - 4 children $ 45.55 per month - each additional child	782,000 families 883,000 families 386,000 families 140,000 families Total: 2,191,000 families 4,313,000 children	$1,506.2m	No	No
Multiple Birth Payments	Parents or guardians with triplets, quadruplets or higher multiples under 6 years.	$150 per month - triplets $200 per month - quadruplets and higher	Introduced in November 1985	-	No	No
Handicapped Childs Allowance	Parents or guardians giving constant care to severely handicapped children, or handicapped children and in financial hardship.	$ 85 per month - severely handicapped $ 20 to $85 per month - handicapped	25,800 children 3,800 children	$27.3m	No Yes	No
Double Orphans Pension	Guardian or institution caring for defined orphans	$55.70 per month	6,100 children	$4.0m	No	No

Additional Pension for Children	Pensioners with dependent children	$16 per week per child	294,900 families 519,400 children	$350m	Yes	No
Additional Benefit for Children	Beneficiaries with dependent children	$16 per week per child	117,900 families 259,800 children	$185m	Yes	No
Family Income Supplement	Low income, non-pensioner/beneficiary families with dependent children	$16 per week per child	26,400 families 74,900 children	$40.9m	Yes	No
Sole Parent Pensions	Widowed, divorced separated and other single persons with dependent children	$97.90 per week	262,000 families	$1,170m	Yes	Yes
Mothers/Guardians Allowance	Sole parent pensioners and beneficiaries	$10 per week	262,000 families	$124m	Yes	No
Remote Area Allowance	Pensioners or beneficiaries resident in specified areas of Tax Zone A	$3.50 per week per child in addition to entitlements of $7 per week single and $6 per week each married.	14,300 children	$2.6m	No	No

N.A. : Not applicable

a Figures for number of recipients and costs of taxation rebates are estimates for the 1983-84, not the 1984-85 year. The distribution of recipients and costs for those without children are derived by applying the distribution in 1982-83 to the gross 1983-84 figures.

b While these rebates are not income-tested on primary earner's or family income, there are income tests to establish the dependancy of spouses and children.

beneficiaries generally receive the entire amount in one hand, whereas payments for pensioners are split between the spouses.

The disposable incomes of different sorts of families are also very significantly affected by the operation of social security income tests and by the income taxation rate scale. Table 2 provides a summary of current income tests in the social security system, while Table 3 shows relevant details of the personal income tax rate scale, major tax rebates and Medicare arrangements.

When looking at the circumstances of social security recipients and other low income groups, the most important component of the rate scale is the zero rate step. The zero rate step, also known as the tax threshold, has the obvious effect currently of insuring that taxpayers do not actually pay tax on the first $4,595 of their income.(1) This figure is increased for certain groups because of the availability of tax rebates. These rebates effectively return to taxpayers the tax payments for which they would otherwise have been liable. For example, age pensioners are entitled to a pensioner rebate of $250 a year, which at the current first rate of 25 cents in the dollar, means that an additional $1,000 of taxable income is free from tax, giving an effective tax threshold for pensioners of $5,595 per year. The sole parent and dependent spouse rebates provide even higher effective tax thresholds for eligible persons.

2.2 Parallels and overlaps - the tax-transfer system

This brief description of the taxation and social security systems should make it apparent that there are a number of structural features of the systems which parallel each other. This is so in two ways.

First, the income tests on pensions and benefits are analogous to the income tax rate scale, in that both reduce the benefit to an individual of additional income. Both the tax rate scale and income tests contain a zero rate step - the tax threshold, under which tax liabilities do not accumulate, and the pension/benefit free areas, under which social security payments are not reduced. Further, these zero rate steps are varied for different family types - the tax threshold by the operation of the rebates, and the pension free areas by the higher free area for couples and the income disregard for children.

This sort of parallel arises because both income tests and the tax rate scale

TABLE 2 : SOCIAL SECURITY INCOME TESTS AT NOVEMBER 1985*

Category	Non-Social Security Income	Reduction in Assistance
Single pensioner	$0 - $30 p.w.	zero
	$30 p.w. and over	50 cents for each dollar over $30 p.w.
Sole parent pensioner, one child	$0 - $36 p.w.	zero
	$36 p.w. and over	50 cents for each dollar over $36 p.w.
	(For each additional child, add $6 p.w. to the 'free area'.)	
Pensioner couple	$0 - $50	zero
	$50 p.w. and over	50 cents for each dollar over $50 p.w.
Couple, one child	$0 - $56 p.w.	zero
	$56 p.w. and over	50 cents for each dollar over $56 p.w.
	(For each additional child, add $6 p.w. to 'free area'.)	
Beneficiaries	$0 - $20 p.w.	zero
	$20 - $70 p.w.	50 cents in the $1
	$70 p.w. and over	$1 for $1
FIS recipients	$0 - $229 p.w.	zero
	$229 p.w. and over	50 cents in the $1 assistance extinguished
Persons receiving rent assistance	$0 p.w. and over (Increased by $6 p.w. for each child.)	50 cents in the $1 until assistance extinguished
Persons receiving fringe benefits		
Singles	$0 - $65 p.w.	All benefits received
	$65 p.w. and over	All benefits lost
Couples	$0 - $106 p.w.	All benefits received
	$106 p.w. and over	All benefits lost
	(For each child, add $20 p.w. to these limits.)	

* From May 1986, the 'free area' for beneficiaries will be increased from $20 to $30 p.w. From November 1986, the 'free area' for pensioners will be increased from $30 to $40 p.w. for singles and from $50 to $70 p.w. for couples, the 'income disregard' for children will be increased from $6 to $12 p.w., and the separate income test on rent assistance will be abolished.

TABLE 3 : PERSONAL INCOME TAX ARRANGEMENTS AT NOVEMBER 1985*

TAX SCALE

Taxable Income From	To	Tax on Taxable Income
$0	$4595	$0.00
$4596	- $12500	$0.00 plus 25.00 cents per dollar over $4595
$12501	- $19500	$1976.25 plus 30.00 cents per dollar over $12500
$19501	- $28000	$4076.25 plus 46.00 cents per dollar over $19500
$28001	- $35000	$7986.25 plus 48.00 cents per dollar over $28000
$35001 and over		$11346.25 plus 60.00 cents per dollar over $35000

MAJOR TAX REBATES

Rebate Level		Relevant Income Tests
Dependent Spouse		Reduced by $1 for every $4 by which dependent spouse's income exceeds $282 p.a. The 'with child' rate is paid only to those with dependent children; to be dependent, the child's income must be less than $1786 p.a.
- with children	$1,030 p.a.	
- without children	$830 p.a.	
Sole parent	$780 p.a.	Payable only to those with dependent children, under circumstances outlined above.
Pensioner - singles and couples	$250 p.a.	Reduced by 12.5 cents for every dollar by which income exceeds $5,595 p.a.
Beneficiary - single	$170 p.a.	Reduced by 12.5 cents for every dollar by which income exceeds $5,275 p.a.
- couple	$220 p.a.	Reduced by 12.5 cents for every dollar by which income exceeds $8,795 p.a.

MEDICARE

Levy Rate	1.0%
Threshold - Singles ...	$ 7256
- Married ...	$12504
- Per Child .	$ 1530
Shade-in Rate	20.0%
Maximum Levy	None

* In his Statement on **Reform of the Australian Taxation System** (September, 1985, p.79) the Treasurer announced the Government's decision progressively to reduce marginal tax rates from 1 September 1986 and 1 July 1987.

are generally designed to promote progressivity - income tests by reducing social security entitlements as other income rises, and the rate scale by increasing tax liabilities as taxable income rises. The variation of taxes and social security entitlements according to income is commonly described as reflecting the objective of **vertical equity** - the concern that the more well-to-do should shoulder greater tax burdens than the less well-off, while those less fortunately placed should receive greater assistance than the well-to-do (Jackson, 1982:15).

The second important aspect of the parallels between the taxation and social security systems is the way in which the entitlements and liabilities of diffferent types of family units are determined within the systems. This is shown in Table 4. For example, the standard rate pension available to a sole parent pensioner can be considered to parallel the standard tax threshold available to a non-pensioner sole parent. Just as a sole parent pensioner receives a special allowance (the mother's/guardian's allowance), so too does a sole parent taxpayer receive a special sole parent rebate. Just as a sole parent pensioner can be eligible for an income-tested additional payment for children, a non-pensioner sole parent can be eligible for an income-tested income supplement for children. Moreover, both pensioners and non-pensioners are entitled to family allowances for their children.

This is not to argue that these parallel features are in themselves necessarily similar in all their important characteristics. Rather, when comparing one type of pensioner/beneficiary with another type of pensioner/ beneficiary family and one type of non-pensioner/beneficiary family with other types, it is apparent that there are some similar concerns common to both systems, in that both provide what can be thought of as a basic entitlement for individuals and then add supplements in respect of persons in specified family situations.

This common concern that people with similar incomes and differing family responsibilities should be treated differently is generally known as **horizontal equity.** In fact, this principle arises from the apparently contrasting objective of insuring that people in like circumstances should be treated alike. However, the contrast is more apparent than real, since like cannot be defined without necessarily defining what is unlike.

In the senses discussed above, the taxation and social security systems can be seen to be linked by the common objectives of promoting both vertical and horizontal equity. The links, however, are far greater than indicated just

TABLE 4 : PARALLEL SOCIAL SECURITY AND TAXATION MEASURES FOR DIFFERENT TYPES OF INCOME UNITS

Income Unit Type	**Pensioner or Beneficiary**	**Non-Pensioner/Beneficiary**	
Individuals	Standard rate pension Standard rate benefit	Tax threshold	
Sole parents	Standard rate sole parents pension/benefit Mothers/guardians allowance Family allowances Additional pension/benefit for children	Tax threshold Sole parent rebate Family allowances Family income supplement	
Couples with children (married or de facto)		Both working	One working
	Married rate of pension or benefit	- Tax threshold for both	- Tax threshold Dependent spouse rebate
Couples with children (married or de facto)		Both working	One working
	Married rate of pension or benefit	- Tax threshold for both	- Tax threshold Dependent spouse rebate
	Family allowances	- Family allowances	- Family allowance
	Additional pension/benefit for children	- Family income supplement	- Family income supplement

by the existence of parallel features to achieve similar goals.

For example, it is a mistake to think of clients of the social security system as not being taxpayers, and thus of two discrete populations, with social security recipients being some sort of 'burden' on taxpayers. In fact, in 1980-81 some 580,000 persons, or more than 25 per cent of social security recipients and around 10 per cent of taxpayers, received Australian Government pensions or benefits during that year and paid more than $800 million in tax on both their social security and private income. Those taxpayers who received some pension or benefit during the year therefore contributed about 5 per cent of all revenue from personal income tax (Harding and Whiteford, 1985a:3-4). By 1983-84 this figure had increased to some 860,000 persons or 13.5 per cent of taxpayers (Harding and Whiteford, 1985b:2). Moreover, over longer periods of time the degree of movement between the two systems is likely to be even greater.

This interaction between the tax and social security systems has increased markedly since the mid-1970s, when most social security pensions and benefits became taxable. Many basic rates of social security payments now exceed the tax threshold. This is because basic rates of most pensions and benefits have been automatically indexed for inflation, but the tax free zone has not. This situation has necessitated special tax measures, such as the pensioner and beneficiary tax rebates, which have been introduced and increased in the last four Budgets to ensure that those who are largely dependent on pensions and benefits do not have their already low incomes reduced by income tax. Another reason for increasing numbers of people being affected by the interaction between the tax and social security systems lies in the rapid growth in the number of unemployment beneficiaries since the mid-1970s, many of whom have spent part of the year as social security recipients and the remainder in work.

These overlaps have heightened other concerns common to both the taxation and social security systems. As previously noted, social security income tests and income tax can be considered analogous, in that both reduce the benefit to individuals of additional income and additional effort to earn income. That is, progressive policies can have unintended consequences for incentives to work or save.

There has been a lot of discussion in the last year in the context of the debate on tax reform of the desirability of reducing marginal rates of income tax in order to promote work incentives. But as Tables 2 and 3 showed, there are a variety of social security income tests and tax measures, including income-tested tax measures, that can apply over the same (fairly low) income ranges.

In fact, once pensioners' and beneficiaries' incomes enter the taxable range, the combined effect of liability for income tax and the reduction of pension or benefit through social security income tests can produce 'effective marginal tax rates' far higher than the current top rate of 60 per cent applied to taxpayers on the highest incomes. ('Effective marginal tax rates' refer to the amount of income lost, through the withdrawal of assistance by income or means tests and/or the payment of tax, out of each additional dollar of private income.) Pensioners and beneficiaries can face effective marginal tax rates of 100 per cent or more over certain private income ranges, and attempts to increase their disposable incomes (eg. through part-time work) can leave them no better-off or even worse-off. These situations are often known as 'poverty traps', in recognition of the possibility that people in these circumstances may have the desire to improve their incomes through work, but the rationality of doing so may not be evident, and that consequently people may feel 'trapped' into dependency on financial support from the Government (Whiteford, Raymond and Moore, 1984).

Table 5 provides details of the effective marginal tax rates facing some illustrative social security families with children (at current pension and benefit rates). It should be readily apparent from these examples that over wide, but relatively low, income ranges, social security recipients can face EMTRs higher than those faced by any other groups in the community.

It should be noted, however, that as part of its tax reform package, the Government announced an increase in the tax threshold, cuts in marginal tax rates and a range of social security measures specifically directed towards some of the most salient 'poverty traps' (Keating, 1985).

Moreover, there is certainly no unanimity of opinion on the practical significance of high marginal tax rates for incentives to work, either for high income taxpayers or low income social security recipients (see, OECD, 1975; Brown, 1980; Whiteford, 1981; Gruen, 1982). There are of course a wide range of factors other than financial incentives affecting actual work behaviour. The policy issues involved are complex and require the harmonisation of conflicting objectives. The only certain point is that these issues are likely to be of concern for some time to come.

TABLE 5 : EFFECTIVE MARGINAL TAX RATES (EMTR) FACING VARIOUS FAMILY GROUPS UNDER CURRENT TAX AND SOCIAL SECURITY ARRANGEMENTS

A. Sole parent with one dependent child

Non-DSS Income	Total Pension	Disposable Income	EMTR
($ pw)	($ pw)	($ pw)	(%)
0.00 - 36.00	123.90	129.15 - 165.15	0
36.00 - 64.93	123.90 - 109.44	165.15 - 179.61	50
64.93 - 231.80	109.44 - 26.00	179.61 - 242.19	62.5*
231.80 - 240.38	26.00 - 21.71	242.19 - 244.34	75
240.38 - 269.88	21.71 - 6.96	244.34 - 250.24	80
269.88 - 283.80	6.96 - 0.00	250.24 - 250.24	100
283.80 - 284.09	0.00 - 0.00	250.24 - 250.38	50
284.09 - 375.00	nil	250.38 - 313.11	31
375.00 - 538.46	nil	313.11 - 399.74	47
538.46 - 673.08	nil	399.74 - 468.40	49
673.08 and over	nil	468.40 and over	61

* Plus loss of Fringe Benefits after $85.

B. Sole parent with two dependent children

Non-DSS Income	Total Pension	Disposable Income	EMTR
($ pw)	($ pw)	($ pw)	(%)
0.00 - 42.00	139.90	152.65 - 194.65	0
42.00 - 58.93	139.90 - 131.44	194.65 - 203.11	50
58.93 - 237.80	131.44 - 42.00	203.11 - 270.19	62.5*
237.80 - 240.38	42.00 - 40.71	270.19 - 270.84	75
240.38 - 299.31	40.71 - 11.25	270.84 - 282.62	80
299.31 - 315.06	11.25 - 3.37	282.62 - 282.62	100
315.06 - 321.80	3.37 - 0.00	282.62 - 283.90	81
321.80 - 375.00	nil	283.90 - 320.61	31
375.00 - 538.46	nil	320.61 - 407.24	47
538.46 - 673.08	nil	407.24 - 475.90	49
673.08 - 673.08	nil	475.90 and over	61

* Plus loss of Fringe Benefits after $105

C. Unemployment or sickness beneficiary couple with one dependent child

Non-DSS Income	Total Benefit	Disposable Income	EMTR
($ pw)	($ pw)	($ pw)	(%)
0.00 - 16.09	179.30	184.55 - 200.64	0
16.09 - 20.00	179.30	200.64 - 203.08	37.5
20.00 - 59.36	179.30 - 159.62	203.08 - 215.38	68.75
59.36 - 70.00	159.62 - 154.30	215.38 - 219.37	62.5
70.00 - 208.30	154.30 - 16.00	219.37 - 219.37	100
208.30 - 224.30	16.00 - 0.00	219.37 - 215.37	125
224.30 - 240.38	nil	215.37 - 227.44	25
240.38 - 269.88	nil	227.44 - 248.09	30
269.88 - 284.09	nil	248.09 - 255.19	50
284.09 - 375.00	nil	255.19 - 317.92	31
375.00 - 538.46	nil	317.92 - 404.55	47
538.46 - 673.08	nil	404.55 - 473.21	49
673.08 and over	nil	473.21 and over	61

D. Unemployment or sickness beneficiary couple with two dependent children

Non-DSS Income	Total Benefit	Disposable Income	EMTR
($ pw)	($ pw)	($ pw)	(%)
0.00 - 16.09	195.30	208.05 - 224.14	0
16.09 - 20.00	195.30	224.14 - 226.58	37.5
20.00 - 59.36	195.30 - 175.62	226.58 - 238.88	68.75
59.36 - 70.00	175.62 - 170.30	238.88 - 242.87	62.5
70.00 - 208.30	170.30 - 32.00	242.87 - 242.87	100
208.30 - 240.30	32.00 - 0.00	242.87 - 234.87	125
240.30 - 240.38	nil	234.87 - 234.94	25
240.38 - 299.31	nil	234.94 - 276.18	30
299.31 - 315.06	nil	276.18 - 284.06	50
315.06 - 375.00	nil	284.06 - 325.42	31
375.00 - 538.46	nil	325.42 - 412.05	47
538.46 - 673.08	nil	412.05 - 480.71	49
673.08 and over	nil	480.71 and over	61

E. **Low income couple receiving Family Income Supplement (FIS), one employment, one dependent child**

Non-DSS Income	FIS	Disposable Income	
($ pw)	($ pw)	($ pw)	(%
0.00 - 167.60	16.00	21.25 - 188.85	0
167.60 - 229.00	16.00	188.85 - 234.90	25
229.00 - 240.38	16.00 - 10.31	234.90 - 237.75	75
240.38 - 261.00	10.31 - 0.00	237.75 - 241.87	80
261.00 - 269.88	nil	241.87 - 248.09	30
269.88 - 284.09	nil	248.09 - 255.19	50
284.09 - 375.00	nil	255.19 - 317.92	31
375.00 - 538.46	nil	317.92 - 404.55	47
538.46 - 673.08	nil	404.55 - 473.21	49
673.08 and over	nil	473.21 and over	61

F. **Low income couple receiving FIS, one person in employment, two dependent children**

Non-DSS Income	FIS	Disposable Income	EMTR
($ pw)	($ pw)	($ pw)	(%)
0.00 - 167.60	32.00	44.75 - 212.35	0
167.60 - 229.00	32.00	212.35 - 258.40	25
229.00 - 240.38	32.00 - 26.31	258.40 - 261.25	75
240.38 - 293.00	26.31 - 0.00	261.25 - 271.77	80
293.00 - 299.31	nil	271.77 - 276.18	30
299.31 - 315.06	nil	276.18 - 284.06	50
315.06 - 375.00	nil	284.06 - 325.42	31
375.00 - 538.46	nil	325.42 - 412.05	47
538.46 - 673.08	nil	412.05 - 480.71	49
673.08 and over	nil	480.71 and over	61

The interaction between the tax and social security systems has not only indirect effects on families' circumstances, but also very significant direct effects.

As previously noted, social security initiatives affect many taxpayers, and tax initiatives have direct consequences for many social security recipients, since large numbers of individuals and families have entitlements under both systems. Thus, the living standards of many taxpayers are vitally affected by their receipt of either the dependent spouse or sole parent tax rebates and family allowances, family income supplement or additional pension/benefit for children paid through the social security system.

Indeed, many tax and social security measures can be regarded as interchangeable mechanisms for achieving policy objectives. Assistance to families with children can be provided through tax rebates or deductions to taxpayers with children, or through cash transfers such as family allowances. Social security cash transfers can thus be thought of as equivalent to 'tax credits' or 'negative income taxes' (Musgrave, 1959:18).

This issue is important because just as many may perceive taxpayers and social security recipients as being discrete populations, many see taxation and social security instruments as being inherently different in their nature. Social security outlays are generally seen as representing a cost to taxpayers and as contributing to the size of the government sector. In contrast, similar measures in the tax system (eg the dependent spouse rebate and the sole parent rebate) are often not regarded as a cost to anyone and tend to be seen as reducing the size of the government.

But both cash transfers and assistance through reductions in tax liabilities involve calls on revenue and have similar implications for the Budget deficit or surplus. Neither cash transfers nor tax assistance add to or detract from the size of the Government or public sector in the sense of involving the Government in itself using up real resources (in the same way that building roads, hospitals or ships does). Rather, the two systems simply redistribute disposable income between individuals and families. Social security expenditures ultimately are spent by private individuals for private purposes, in the same way allowed for by tax concessions. (There are, of course, real costs associated with the administration of programs.)

Perceptions of social security outlays as a cost, while tax concessions are perceived as costless are misleading and unfortunate, since it may mean that tax concessions are subject to less scrutiny than social security outlays[2], irrespective of the actual merits and efficiency of direct expenditures in comparison with taxation instruments.[3]

In fact, it can be argued that in considering the goals of income distribution and economic efficiency, taxation and social security policies should be seen as integrally related instruments. Since their interaction affects the way in which incomes and standards of living are distributed throughout the community, it is necessary when considering policy changes to either system to examine both together, so that the combined effects of change can be exposed and any unintended consequences of change avoided. Thus, while the tax or social security systems are frequently considered in isolation, exclusive concentration upon only one system may frustrate broader equity and redistributional objectives.

In summary, that is rather than having two separate systems which affect the distribution of disposable incomes and the labour force behaviour of the Australian population, in certain respects we have a single tax-transfer system. The distinction made between the two systems is convenient for analytical purposes, but when considering distributional policies, tax and social security should be seen as two sides of the one coin.

2.3 The tax-transfer system and redistribution

It must be said that this argument is necessarily arguable. As Musgrave notes in a somewhat different context: 'All these views may be held, and none can be proved correct' (1959:65). Some examples may show however that the view adopted in this paper does at least provide a consistent approach to the issues involved.

The first example is provided by the recent debate about the possible introduction of a broad-based consumption tax (BBCT). The Draft White Paper on Tax Reform illustrated possible mechanisms for compensating social security recipients for the regressive effects of any indirect taxes. Indexation and above indexation increases in social security payments would have involved additional expenditure by the Department of Social Security of nearly $1 billion in a full year (Department of the Treasury, 1985:159). But any such additional expenditures would have been not much more than the return of the extra indirect taxes that low income groups would have been paying if a BBCT had been introduced. Other groups in the community would have received their compensation in the form of income tax cuts. The effect would be the same, but the appearance would be very different.

Second, the Australian social security system provides through the instrument of the Family Income Supplement (FIS) program cash payments of $16 per week per child for low-income families not in receipt of pension or benefit payments. The United Kingdom also has a FIS program, currently paid out through the social security system. In the recent Green Paper on reform of the UK social security system, it was recommended that this FIS payment should be replaced by a tax credit system paid through employers (Atkinson, 1985:334).

Similarly, the New Zealand Department of Social Welfare currently provides an income-tested payment for children in low and middle-income, working families called Family Care, which because of the high level of payment and the low rate of taper can be loosely considered as a 'long FIS'. In its recent statement on taxation and benefit reform, the New Zealand Government announced that from 1 October 1986 this income-tested 'social welfare' payment, plus similar payments for children of beneficiaries and a tax rebate system for families would all be replaced by a single, income-tested, refundable tax credit system to be administered by the Inland Revenue (Taxation) Department, and where possible this new Family Support program would be paid by reducing Pay-As-You-Earn (PAYE) deductions (see Whiteford and Whitecross, 1985).

In each of these cases, it is possible to see taxation and social security programs that mirror each other. But in essence a program is not different because it is paid now by a Social Security or Welfare Department, and in the future by the Tax Office. For individuals who remain recipients, there is no difference in their disposable incomes if they receive $5 a week in a social security cheque or $5 a week through lower tax liabilities. Nor in terms of effective marginal tax rates is there any essential difference between an income test on a social security payment for children and an income test on a tax credit for children.

While these essentials should be judged for what they are, there can be important differences between the administrative implications of providing a payment through the Tax Office or through the Social Security Department, since the two administrative systems can direct assistance to different recipients, with consequent differing distributional effects. Further, providing an income-tested payment as a tax credit through employers may be presented as a reduction in the size of the public sector, when actually some of the administrative costs may simply be transferred to the private sector.

The third example, which also illustrates the differences between the targeting capabilities of tax and social security administration, is provided by the recent history of general assistance for children in Australia. Assistance through the personal income tax system for each child was provided in the form of concessional deductions (which were of greater benefit to high income earners) up to 1974-75. The first crucial step towards the current system was made in 1975-76, when tax rebates (which were of equal money value to the majority of taxpayers with dependent children) were introduced.

Throughout this period, cash assistance for families with children was also provided through child endowment paid by the Department of Social Security. In 1976-77, both cash rebates and child endowment were replaced with the current system of family allowances.

The two main advantages of providing assistance through cash payments instead of through the tax system were:

- payments could be made to all families with children, not just those with incomes high enough to benefit from the tax rebates/ concessions; and
- assistance was directed to mothers.

Because of the change from tax rebates to family allowances, both taxation revenues and government outlays increased by some $700 million in 1976-77. While most taxpayers with children continued to receive the same amount of assistance as they did prior to the family allowances reform, it was estimated at the time that some 300,000 families (with 800,000 children) whose incomes had been insufficient to take full or any advantage of the tax rebates, received greatly increased assistance for their children.(4)

Since their introduction, family allowances have been criticised as 'middle class welfare', since they are a cash payment from the Department of Social Security, but are neither income-tested nor taxed. Indeed, around 80 per cent of the recipients of family allowances are not in receipt of any other payment from the Department of Social Security. This could be taken either to conclude that family allowances are not well targeted to the poor, or that they are not intended to be reserved for the poor. In fact, while family allowances are counted as expenditures by the Department of Social

Security, they can still properly be viewed as part of the tax system. This view is supported both by arguments in taxation literature that exemptions for family composition are essential to the structure of any tax which bases itself on the principle of ability-to-pay (of which more later) and by the practice of most other countries. The income tax system in Australia still recognises this principle of horizontal equity through the dependent spouse rebate and the sole parent rebate.

Family allowances now provide the major instrument for reducing the effective income tax burden on all families with children, in recognition of the fact that at any income level families with children have a lower capacity to pay tax than similar families or individuals without children. In addition, family allowances also uniquely offer a means of providing greater assistance according to the number of children in the family. In contrast with other tax measures they also provide equal assistance to families with low incomes and who pay little or no tax. Thus, rather than being a welfare measure that goes to the rich, family allowances can be considered as a taxation measure that provides additional assistance to the neediest.

3. Objectives of Family Assistance

3.1 Horizontal and Vertical Equity

A key objective of the tax system is to collect the revenue required to fund public sector activity. But a further, and critical objective is that the distribution of the tax burden should be equitable - everyone should pay their 'fair share'.

How the term 'fair share' should be defined, however, is subject to debate. Two strands of thought can be distinguished:

- the benefit principle, under which taxpayers should contribute in line with the benefits they receive from public expenditures; and
- the 'ability-to-pay' principle, under which a given total revenue is required and each taxpayer is asked to contribute in line with his or her 'ability-to-pay' (a further definitional problem).

There are advantages and disadvantages to each alternative, and neither approach is easy to implement. One problem with the benefit principle is that it implicitly assumes that a 'proper' state of distribution already exists, and on this basis will allocate tax burdens according to the incidence of public benefits. As such, the benefit principle fails to recognise taxation as a means of financing transfers or as serving redistributional objectives. As noted by Allan:

> The benefit rule cannot provide a universal rule of taxation if we accept that the government has to support the poor. There will always be some people who would earn nothing in a free market and many more would earn amounts which would be considered inadequate on humanitarian grounds. These people have to be given income and this must be paid for by taxation (of those who have higher incomes) according to some other principle than that of benefit.
>
> It can be argued that the rich derive benefits from redistribution ... but the point here is that the benefits accruing to the poor as a result of redistribution cannot, by definition, be subjected to taxation.
> (1971:107)

The alternative principle that people should contribute to the cost of government in line with their ability-to-pay goes hand in hand with the principle of helping those in need, which is often seen as the basis of the social security system. In this sense, the taxation and social security systems can be considered as one integrated system providing for income redistribution. As someone's financial position worsens they can depend more on the community for help, and as their finances improve their contributions to the community in the form of tax should therefore increase. Just as the social security system structures benefits according to the needs of recipients, the ability-to-pay principle requires that equal amounts of tax should be paid by taxpayers with equal abilities-to-pay (horizontal equity) and requires different amounts of taxes when abilities-to-pay differ (vertical equity).

There are therefore three major issues associated with the ability-to-pay principle. These are:

(i) How should ability-to-pay be defined?

(ii) By how much should the amount of tax vary as ability-to-pay varies?

(iii) When do people have equal abilities-to-pay?

These three concerns are very closely interrelated.

The 1966 Canadian Royal Commission on Taxation, for example, argued that ability-to-pay should be measured in terms of gains in 'discretionary economic power'. That is, some part of each person's income must be spent to provide food, clothing, medical expenses and other necessities. The discretionary economic power of the individual is that which is available to spend or save after meeting these non-discretionary expenses. This implies that over some basic level of exemptions (the tax threshold), all real resources (eg. including capital gains, employment fringe benefits, etc) should be subject to tax.

The vertical equity concern that the amount of tax should vary as ability-to-pay varies is usually taken to support a progressive rate structure above this basic threshold.

Similarly, it has been argued that horizontal equity can be achieved when individuals and families with the same gains in discretionary economic power pay the sa amount of tax. Since larger families generally have greater requiremen or necessities, it follows that the level of exemptions should be structured to reflect family needs, eg. two working people should have the benefit of two thresholds, and there should be allowances for children and other dependants.

The ability-to-pay principle in the tax system is paralleled in the social security system by the 'needs' principle. As already discussed, features of the tax system which seek to recognise horizontal equity, such as dependants' rebates, are paralleled in the social security system by allowances for dependants, such as wife's pension, additional pension and benefit and mother's/guardian's allowances. Features of the tax system which seek to recognise vertical equity such as progressive personal income tax rate structures are paralleled in the social security system by income tests.

In fact, the distinction commonly made between horizontal and vertical equity is useful for analytical purposes, but the reality is that they are inseparable parts of the one principle of equal treatment. For example, it is commonly argued that vertical equity is frustrated by the lack of comprehensive taxation of capital. But similarly, horizontal equity also requires comprehensive capital taxes, since taxpayers whose resources are concentrated in assessable income (eg. wage and salary earners) are treated more harshly for tax purposes than those with the same overall level of resources concentrated in capital gains. A corollary of this, however, is that increases in taxes fall more heavily on those with incomes in assessable form, and may violate to some extent both horizontal and vertical equity concerns.

Vertical and horizontal equity, therefore, can be considered as complementary aspects of a 'fair' tax-transfer system in that both are required if the principle of ability-to-pay is to be recognised. In this sense, it can be argued that recognition for dependants, either children or spouses, should not be regarded as a concession or departure from normal taxation practice (ie.a 'tax expenditure'), but as a basic component of an equitable tax system (see Ingles, Podger, Raymond and Jackson (1982) for further discussion).

4. Current Concerns

4.1 Private Choice and Public Support

Arguments about choice form an important element in many debates about tax-transfer policies and the priority to be given to considerations of horizontal equity. Indeed, choice is a fundamental issue. It can be argued that the size, composition and activities of families are expressions of their 'revealed preferences', and it is these preferences that should be taken into account when comparing the needs or capacity-to-pay of different family types. According to Pollak and Wales:

> Thus, in a perfect contraceptive society, if a family chooses to have three children and $12,000 when it could have had two children and $12,000 then a revealed preference argument implies that the family prefers the alternative it chose. (1979:219)

On this basis, it can be argued that no allowances at all should be made for the costs of children in either the income tax or the social security system. For example, the Centre of Policy Studies notes that 'while it is certainly true that the presence of dependants does indeed reduce ability to pay, it is debateable whether this should be regarded as a reason for reducing tax liability any more than should the buying of a boat which likewise reduces the ability to pay. ... Since the decision to have children, however, is usually one of choice, it is arguable whether the tax system should recognise such costs' (1985:26).

As the comparison of children to boats suggests, it is customary (and can be useful) in certain sorts of economic analysis to think of children as 'durable goods'. McCloskey points out that this idea can be translated as follows: 'A child is costly to acquire initially, lasts for a long time, gives flows of pleasure during that time, is expensive to maintain and repair, has an imperfect second-hand market ... Likewise, a durable good, such as a refrigerator ...' (1983:503). - or a boat! The main behavioural assumption of this approach is that children are planned - that parents make long-term decisions about their housing, their life style and its material components, the way they spend their time, and the number of children they want to have, in a rational and optimising way, and then to the best of their ability attempt to fulfil those plans.

There is a considerable element of accuracy in this view of family decision-making, although it is probably most relevant to relatively well-off families, and not to the poor. The metaphor of children as consumer durables is, however, unrealistic to the extent that, unlike refrigerators or boats, children are objects of affection and concern, and have their own opinions. To many people, also, this view may not be a realistic judgement about why people have children.

It should be noted that this line of argument is relevant not only to children. The Centre of Policy Studies, for example, also states that 'there seems to be no convincing rationale for allowing a rebate to married couples without dependants, simply because one of the couple **chooses** not to work' (1985:27, emphasis added). This argument can potentially be extended even further to argue, for example, that people may choose to be sole parents or may choose to be unemployed.

A further modification is to argue that low income may constrain choice, but high income groups have the freedom to choose and are therefore 'undeserving' of assistance. This suggests that horizontal equity concerns may 'stop' or at least become weaker above a certain income level. As the Centre of Policy Studies notes: 'It can be argued that once income reaches a certain level, all income above that level becomes "discretionary" and if it is largely a matter of choice as to how it is spent. Above this level, the amount spent o children will vary according to the standard of living their parents are able to choose and need not, therefore, be subjected to tax relief. On this basis, tax relief for children would be provided only to those with very low incomes' (1985:26).

It is worth noting that the claim that spending can become discretionary at a very low level of income is simply an assertion. Nor is it noted that non-discretionary spending presumably varies with family composition. Moreover, the Centre of Policy Studies makes no suggestion as to how discretionary and non-discretionary incomes could be determined in practice.

There are, of course, alternative views about these issues and the proper basis of tax-transfer policies. Cass, Keens and Wyndham (1983:17), for example, identify an alternative approach to policies for children, in which children are seen as a social investment and national resource, thereby providing justification for public expenditure on their care and development. Parker (1978) also provides a discussion of this approach.

The distinction between alternative approaches is, however, ultimately a matter of personal preferences and values. Nevertheless it can be very seriously questioned whether or to what degree the issue of choice is actually relevant to social policies.

One major problem with the revealed preferences argument is the assumption that children, for example, are purely objects of choice. Many children are unplanned and not only in relation to timing. Children are irreversible. Before deciding to have children, people may make judgements about their incomes and opportunities for periods of up to twenty years ahead. There is considerable uncertainty involved in these judgements and parents' information may be faulty. Economic conditions can change, particularly for persons who become unemployed or become sole parents or invalids. The incomes of the poor are typically subject to fluctuations. Indeed, poverty can be defined as a condition of constraint on choices - in the case of low income families, the assumption of free choice is therefore simply inappropriate.

Yet even in regard to high income groups it can be argued that there is a false dichotomy in the belief that choice is a relevant concern, for this implies that the alternative is not a choice. In fact, some people may choose not to have children in exactly the same way that some people choose to have children. The judgements involved may not only be about the direct expenses of raising children, but also about the activities preferred by the adults involved, and their long-term decisions about lifestyles and the ways in which they wish to spend their time. That is, if for the purposes of welfare comparisons it is necessary to take account of the utility derived from having children, it is also necessary to take account of the utility derived from not having children. Whether the satisfactions involved are equivalent is a complex issue, but it is clear that the expenses can be substantially different.

Moreover, there is a crucial difference between having children and buying boats. As Muellbauer notes, 'very fundamentally, children are individuals too. This means that the real consumption levels of children should themselves be part of the measurement of the overall distribution of income, irrespective of whether they are a positive part of their parent's standard of living' (in Diamond, 1978:337-338).

Similar arguments can be advanced in the case of the tax-transfer treatment of sole parent families and families with and without dependent spouses.

The crucial issue once again is the degree of constraint imposed on whatever choices are involved with having dependent children or being dependent spouses or sole parents. The 'choices' are of course interrelated - generally the dependancy of spouses or sole parents accompanies the birth of children. This might seem to suggest that public support for dependent spouses through the taxation system should be limited to those with dependent children. However, this conclusion should be qualified, since a large proportion of dependent spouses without children are likely to be older women whose lack of work experience and labour market disadvantages are a direct result of the former presence of children. Indeed, this is one of the rationales for the Class B widow's pension, which provides assistance to older women who do not or no longer have dependent children. In addition, when considering public policies for dependent and working spouses, account needs to be taken of factors such as the costs of child care, the costs of working, and the contribution of all family members to their joint standard of living. How these factors balance out is not at all clear. Overall it would appear unrealistic to treat all children or dependent spouses purely as if they were objects of choice without effective costs.

4.2 Adequacy of payments

Once it is accepted that public income support for families is appropriate, a range of further issues arise. In recent years, there has been a variety of concerns about the adequacy of payments for children provided through the tax and social security systems. It is difficult to make definitive statements about the adequacy of tax-social security arrangements, since the measurement of adequacy like the measurement of poverty is at least in theory a controversial matter. Nevertheless, there are some obvious points that can be made, since all the indicators seem to point in the same direction.

The concern with adequacy has two components - concern about the situation of low income families with children and concern with the situation of families generally. Concern with the situation of low income families has been prompted by the increasing number of children whose parents are reliant on social security payments as their main source of income. As Table 6 shows, between 1976 and 1985 the number of children for whom income-tested payments

TABLE 6 : SOCIAL SECURITY PAYMENTS FOR DEPENDENT CHILDREN - 1976 TO 1985

Number of Recipients ('000s)

At 30 June	Additional Pension	Additional Benefit	FIS[a]	Total Income-Tested	Family Allowances	Income-Tested as % of Total
1976	283.9	86.0	-	369.9	4,292.4	8.6
1977	309.4	117.5	-	426.9	4,302.0	9.9
1978	338.0	137.0	-	475.0	4,304.3	11.0
1979	361.2	133.0	-	494.2	4,230.6	11.7
1980	379.8	145.0	-	524.8	4,223.9	12.4
1981	431.4	145.0	-	576.4	4,227.2	13.6
1982	449.2	179.0	-	628.2	4,254.5	14.8
1983	472.5	309.3	48.2	830.0	4,303.3	19.3
1984	494.5	274.9	74.0	843.4	4,326.0	19.5
1985	519.4	259.8	74.9	854.1	4,323.5	19.8

a The Family Income Supplement (FIS) was introduced in May 1983.

were made more than doubled from nearly 370 thousand to nearly 855 thousand, increasing from 8.6 per cent of children to 19.8 per cent of dependent children. The issues involved in this development are discussed in some detail by Cass (1983). In brief, the main influences have been the increasing numbers of sole parent families (Development Division, 1982), very greatly increased unemployment amongst families with children, and the introduction of the new Family Income Supplement program in May 1983 to provide assistance to low income families with dependent children.

The increasing numbers of children in low income families has led to increased awareness of the low level of income support for children. Current rates of family [illegible]owance range between [illegible] 25 a week for the first child and $10.50 a week [illegible] fifth and subsequent [illegible]ildren. While it is arguable whether the fam[illegible] allowances program should meet the full costs associated with raising children, it is clear that these levels of payments do not provide anything like such assistance. In effect, through family allowances we provide no more than a payment of between 25 cents and 50 cents for each meal that a child has in a week, and nothing more. If the child's parents are in need, through additional pension and benefit or FIS we provide an additional subsidy of 76 cents per meal, and nothing more.

By international standards and from indicative research, assistance for children thr[illegible]h family allowances and the social security system is particularly [illegible]. For example, current total payments for a child in a pensioner or [illegible]ficiary family amount to thirteen per cent of the social security paym[illegible]s for an adult couple, whereas, on average, research into the costs of children suggests that payments should be around 20 per cent, or more than 50 per cent higher than they now are. The relativities suggested by the OECD in its social indicators program would involve a relative payment of 29 per cent, or more than twice what is now paid (Whiteford, 1985:108-109).

Also by international standards, assistance for children of parents with average earnings is low; in 1978 in Australia the level of assistance for dependent children of a taxpayer who was an 'average production worker' was the fourth lowest of 19 of the OECD countries. This is shown in Table 7.

Most importantly, since their introduction in 1976, family allowances have effectively been increased only once - rates for third and subsequent children were increased by 50 per cent in January 1982, and rates for first and second children were increased by 50 per cent in November 1982. These money increases, however, have not been as great as the increases in

TABLE 7 : THE VALUE OF TAX RELIEFS AND CASH TRANSFERS* GIVEN TO FAMILIES WITH TWO CHILDREN - 1978

	Assistance given to married couples		Additional assistance given to families					
	Tax reliefs		Tax reliefs		Cash transfers		Total	
	APW's wage	Twice APW's wage	APW's wage	Twice APW's wage	APW's wage	Twice APW's wage	APW's wage	Twice APW's wage
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(iii) + (v)	(iv) + (vi)
Australia	5.4	2.7	0	0	3.8	1.9	3.8	1.9
Austria	1.7	1.9	1.5	1.7	15.2	7.6	16.7	9.3
Belgium	0.8	0.6	2.5	1.8	12.7	6.4	15.2	8.2
Canada	4.6	3.3	4.0	0.5	4.2	2.1	8.2	2.6
Denmark	5.2	2.6	0	0	3.8	1.9	3.8	1.9
Finland	3.5	2.3	2.8	1.4	5.3	2.6	8.1	4.0
France	5.3	7.9	2.8	3.6	8.6	2.8	11.4	6.4
Germany	7.0	11.0	0.4	0.3	5.3	2.6	5.7	2.9
Ireland	6.8	5.8	3.8	2.8	1.7	0.9	5.5	3.7
Italy	1.2	0.6	0.5	0.3	6.0	3.3	6.5	3.6
Japan	1.9	1.4	3.4	2.7	-	-	3.4	2.7
Luxembourg	7.2	11.4	6.0	4.5	7.2	3.6	13.2	8.1
Netherlands	2.2	2.8	1.3	-	6.8	3.4	8.1	3.4
New Zealand	1.7	0.9	2.9	1.5	3.5	1.7	6.4	3.2
Norway	5.5	6.4	2.1	1.0	3.9	2.1	6.0	3.1
Portugal	0	1.2	0	0.4	5.1	2.6	5.1	3.0
Sweden	3.1	1.6	0	0	7.7	3.8	7.7	3.8
Switzerland	3.5	3.7	1.2	1.1	3.5	1.7	4.7	2.8
United Kingdom	4.1	2.1	1.5	0.8	6.1	3.1	7.6	3.9
United States	4.1	6.5	3.3	2.4	-	-	3.3	2.4

* Expressed as a percentage of gross earnings.

Note: APW stands for average production worker.

Source: OECD, 1980, p.64.

inflation since that time, and as a consequence family allowances have declined by 23 per cent in real terms since 1976-77. In contrast, the dependent rebates in the tax system have generally maintained their real value or better - the dependent spouse rebate for those with children has increased by about 6 per cent in real terms since 1976-77, while over the same period the sole parent rebate has increased by about 14 per cent in real terms. As well, additional payments for children and mother's/guardian's allowance within the social security system have also declined substantially in real terms - by between 9 and 20 per cent - thus further disadvantaging the poorest families with children. Table 8 provides details of these trends.

The problems of pensioner and beneficiary families with children have been addressed to some extent by substantial real increases in these payments in the last three Budgets. Nevertheless, the loss of real value of family allowances and of income-tested payments has been a significant influence on the trends in incomes since 1976 which have widened the gap between families with and without children and in particular between the poorest families and other members of the community.(5) While in the last three Budgets the Government has placed priority on increasing the income-tested payments for children of pensioners, beneficiaries and low-income workers and has provided general tax cuts, significant problems remain for all families with dependent children. This is shown in Table 9. Sole parent pensioners with two or more children and pensioner/beneficiary couples with four or more children have suffered actual declines in their real disposable incomes over the past decade. Higher income families with children have experienced real increases in their disposable incomes, but, for all persons not entitled to FIS, these increases have been smaller for families with children and decline with increasing family size.

Because family allowances are paid at a flat rate, they form a higher proportion of the incomes of low income families with children than they do of the incomes of high income families. It follows then that in relative terms it is the poorest families with children, particularly pensioners and beneficiaries, who have been most disadvantaged by the fall in the real value of family allowances. For example, for a sole parent pensioner with three children, family allowances when they were introduced represented around 17 per cent of their total disposable income. The decline in real value of family allowances alone therefore represents a cut in their real disposable incomes of about 4 per cent.

TABLE 8 : REAL CHANGES IN COMPONENTS OF INCOMES BETWEEN 1976-77 AND 1984-85

Income Component (1)	Percentage Change since 1976-77 in Real Terms
Pensions and Benefits	%
. Additional pension/benefit for children	- 9
. Mothers/guardians allowance (2)	-20
. Standard rate of pension and sickness benefit (3)	+ 8
. Married rate of pension and benefit (3)	+ 9
. Single adult rate of unemployment benefit (for those without children)	- 4
. Single junior rate of unemployment and sickness benefit:	
- standard rate	-36
- for those in receipt of benefit for 6 months and over	-31
Single pension free area	-23
Family Allowances	-23
Tax Measures	
. Dependent spouse and daugher-housekeeper rebates:	
- for those with children	+ 6
- for those without children	-15
. Sole parent rebate	+14
. Basic tax threshold	-17
. Single pensioners' tax threshold	- 1
. Single beneficiaries' tax threshold	-14
Wages	
. Gross Average Weekly Earnings	+ 11

(1) Family Income Supplement is not includes in this table because it was introduced only in 1983.

(2) Based on movements in higher rate of mother/guardians allowance.

(3) These increases are effectively overstated because of declining inflation rates and the Medicare effect.

TABLE 9 : PER CENT CHANGES IN REAL DISPOSABLE INCOMES[1] OF VARIOUS FAMILY TYPES, 1976-77 TO 1984-85

	Pensioner with Nil Private Income	Beneficiary with Nil Private Income: Adult Sickness	Beneficiary with Nil Private Income: Adult Unemployment	Beneficiary with Nil Private Income: Junior Unemployment and Sickness	Wage & Salary Earner with Private Income of 50% AWE	Wage & Salary Earner with Private Income of 75% AWE	Wage & Salary Earner with Private Income of 100% AWE	Wage & Salary Earner with Private Income of 150% AWE
Single Person	+8.2	+8.2	-4.2	-36.1 -31.2	+6.3	+9.1	+10.4	+7.8
Sole Parent:								
- One Child	-1.4	+12.6	-	-	+13.2[2]	+8.4	+9.8	+7.5
- Two Children	-1.3	+7.5	-	-	+18.5[2]	+7.2	+8.7	+6.7
- Three Children	-3.5	+3.7	-	-	+22.7[2]	+7.0[2]	+7.5	+5.9
- Four Children	-5.1	+1.0	-	-	+26.5[2]	+10.4[2]	+6.4	+5.1
Married Couple, with One Spouse Working:								
- No Children	+8.4	+8.4	+8.4	-	+4.2	[illegible]	+8.8	+6.7
- One Child	+5.5	+5.5	+5.5	-	+12.5[2]	+7.9	+9.3	+7.2
- Two Children	+2.9	+2.9	+2.9	-	+17.7[2]	+6.7	+8.3	+6.4
- Three Children	+0.6	+1.7	+1.7	-	+21.8[2]	+6.5[2]	+7.1	+5.6
- Four Children	-1.1	+1.5	+1.5	-	+25.6[2]	+9.9[2]	+6.1	+4.8
Married Couple, with Both Working (Income Split 60:40):								
- No Children	-	-	-	-	+6.9	+5.0	+6.3	+9.1
- One Child	-	-	-	-	+14.0[2]	+4.3	+5.7	+8.6
- Two Children	-	-	-	-	+19.0[2]	[illegible]	+4.8	+7.9
- Three Children	-	-	-	-	+23.1[2]	[illegible][2]	+3.8	+7.1
- Four Children	-	-	-	-	+26.8[2]	+6.6[2]	+2.9	+6.4

(1) Based on average tax scales applying in 1976-77 and 1984-85. Includes all rebates, family allowances and family income supplement. Excludes health levies in relevant years.

(2) At this income level, FIS would be payable and for relevant years is included in disposable [illegible] ole parents, however, would be financially better off claiming supporting parents benefit instead of FIS.

4.3 Family assistance and social change

Discussion of proposals for change to family assistance arrangements centres on a number of complex issues. These include:

The appropriateness of the assumptions about behaviour underlying the programs, particularly the dependent spouse rebate (DSR). On the one hand, the DSR appears to be based on the assumption that women are or should be dependent upon their husbands, both when they have children and after. This view is reinforced by the fact that the payment goes to the main income-earner (usually the male) rather than to the qualifying spouse. Given increases in the labour force participation of married women over the past decades, the underlying assumption may be seen as increasingly inappropriate.(6)

It can be argued, on the other hand, that many married women, particularly some older persons, may have had considerable interruptions to their labour force activity in past years and would be disadvantaged in the current labour market. For those with limited work opportunities, recognition of the fact that (at least) two persons are dependent upon one income may be regarded as appropriate.

This general issue is less salient in the case of family allowances, which contains no implicit assumption about female work patterns, since it is paid to all mothers (usually), irrespective of their labour force activities.

The value of home activity. Proponents of the DSR and of increases to it argue that this program is the only recognition of the important social and economic contribution made by women at home. They suggest that the value of the rebate is low compared to the value of the second tax threshold available to working wives, and should therefore be increased. (Currently, the tax threshold is $4,595 per year, while the DSR for those without children is equivalent to an additional $3,320 per year of tax-free income for the husband, and $4,120 per year where there are children.)

While the second tax threshold is of greater money value than the DSR, it can be argued that this is justified by the costs that must be met when persons seek work, costs that are even greater where there are child-care expenses. There are only a very small range of studies which have sought or which can be used to estimate the additional income required by a family where both spouses work in the market if they are to achieve the same standard of living as a family where one spouse works in the market. These estimates of additional income requirements range widely, however; from between 2 and 30 per cent where there are no children, between 5 and 32 per cent where there is one child, and between 5 and 25 per cent where there are two children (Whiteford, 1985:113-114). While this range of estimates may appear too wide to be of much practical assistance, the very low estimates were derived from poverty studies, in which it could be expected that there would be comparatively few families where both spouses worked full-time. The only study specifically designed to estimate the costs of full-time work for a secondary income earner provided an estimate of a 30 per cent differential (Lazear and Michael, 1980).

The differential in disposable incomes provided by the second tax threshold vis-a-vis the dependent spouse rebate is currently a maximum of some 3.5 per cent for families whose incomes fall in the 25 cent rate step. The differential increases as income increases, but this is because of the higher rate steps rather than the level of the threshold and the DSR.

It has also been argued that the home activities of dependent spouses should be treated as enhancing a family's income, so that a dependent spouse rather than being a drain on resources and thus deserving support, can be considered as an addition to the family's resources, which should be 'taxed'. For example, families where both spouses work must generally pay for child care, buy more meals outside the home and generally pay for other household services which single income families receive from the dependent spouse. Thus, at any specific income level, the single income family will have greater free resources and therefore a greater capacity to pay tax than the two-earner family (see Edwards, 1984:92-111). In addition, it has sometimes been argued that because two-income families must still carry out many of these household tasks, their leisure time and thus their overall standard of living is further depressed.

While it appears undeniable that at any specific income level, a single income family has fewer expenses than a two-income family, there are a great number of practical and conceptual difficulties with this approach. As noted by proponents of this approach, it is not feasible to tax the imputed income from home activities or from leisure, and they therefore suggest that this problem should be resolved by the abolition of the DSR and/or by the more favoured tax treatment of secondary income earners. However, the degree to which there should be differentiation between single and two-income families has not been comprehensively quantified; such quantification would require detailed consideration of the household activities and leisure time of two-income as well as single income families. There is also a need to determine whether income can be imputed to leisure at all income levels and in all circumstances, eg. poor people or the unemployed cannot realistically be said to derive imputed income from their enforced 'leisure'; a spouse who is caring for children or handicapped relatives or is himself or herself handicapped may not be a source of imputed income, except to the extent of the costs avoided by the private provision of these services. It is necessary to be careful to avoid 'double-counting' in these cases. The situations involved are very complex. In general, these problems do not arise in respect of the family allowances program, which makes no distinction based on home/work activity.

Support for marriage or neutrality between family relationships. Proponents of the DSR argue that it should be increased in order to bolster 'traditional' family relationships (ie. generally families where the husband works in the market and the wife cares for children at home). Others argue that Governments should be neutral in dealing with family relationships and should therefore neither discriminate for or against any type of family. This issue is fundamentally a matter of social preference, but it should be noted that neutrality does not necessarily imply that all families are treated exactly alike in terms of levels of assistance. It is necessary to determine the equivalent needs or equivalent capacity to pay of different families and proceed on that basis.

Once again, family allowances being universal, do not discriminate against any specific type of family, although it can be argued that they constitute discrimination in favour of families who choose to have children. As noted previously, the element of choice is important. In addition, family allowances cannot be said to discriminate in favour of children unless their rates exceed the costs of raising children. This seems unlikely.

Income-sharing within the family. A number of proponents of increased family allowances argue that they should be increased in order to offset, albeit to a minor extent, the unequal pattern of resources within the family unit, both where spouses do and do not work. Evidence on income-sharing within the family unit is scant (but see Edwards, 1981, 1984), but there appears to be general agreement that resources are often very unequally shared. Family allowances, paid to mothers, tend to offset this inequality, while the DSR, being paid to the primary income earner, may reinforce this inequality. If there is concern with this issue, consideration could be given to placing greater emphasis on family allowances or to replacing the DSR with a cash payment to mothers.

Effects on work incentives. The DSR is income-tested on the dependent spouse's income, and therefore married women seeking work effectively start paying tax once their incomes exceed $282 per year. This may constitute a barrier to labour force participation of married women.

It should be noted that if there is considered to be justification for some public support of dependent spouses, then an income test is required in order to establish 'dependency'. It is difficult to quantify the effect of the income test on the work behaviour of spouses, although there is considerable evidence from the USA that the labour force participation of married women, particularly those with low incomes, is more sensitive to tax increases than any other group except sole parents (Whiteford, 1981).

4.4 Universal or selective support

While vertical and horizontal equity concerns are closely interrelated, conflicts can arise between these two goals when considering expenditure priorities. The conflict arises between vertical and horizontal equity primarily where it is considered necessary to redirect from expenditures that serve horizontal equity concerns, even at high income levels, to programs of greatest assistance to the needy. It should be recognised, however, that to the extent that horizontal equity concerns are considered justified, their weakening may fundamentally impair the equity of the tax-transfer system. In fact as noted previously, there are strong arguments for increasing rates of some 'horizontal equity' payments.

There is a further set of vertical equity arguments particularly relevant to the consideration of family allowances and the dependent spouse rebate. Both programs are sometimes considered as 'middle class welfare', particularly family allowances, since it is a cash payment from the Department of Social Security, but is neither income-tested nor taxed. Because of the similarities between the objectives of family allowances and those of the DSR, the spouse rebate has also been criticised as favouring better-off households.

This view, however, is based on a misperception of the role and effects of these programs. Family allowances and the dependent spouse rebate provide assistance to persons in the high expense phases of their family life cycle, that is when they have children. Families with children may appear better-off than other types of income units because many of the 'other' groups are made up of older persons who are still in the workforce or who have retired and of younger groups who have less workforce experience. Many of these people will have lower incomes, but could be expected to have fewer expenses relative to those incomes. In addition, they may have already received the benefits of these payments or could be expected to later in their lives, when they have children. The proper perspective in which to look at these issues, therefore, is in terms of the distribution of the benefits of these programs over the life cycle.

Even a point in time analysis suggests that these programs are more progressive than commonly conceded. Analysis of 1975-76 Household Expenditure Survey data suggests that family allowances are progressive in their incidence, accounting for 1.1 per cent of the income of the lowest income group in that survey and 0.2 per cent of the income of the highest income group (Harding, 1984:55-57).

Table 10, derived from the 1981-82 Income and Housing Survey, shows the distribution of families with children by the joint income of the parents. It can be seen that around 38 per cent of all families with children have joint incomes less than AWE, rising to 56 per cent with less than 125 per cent of AWE and 70 per cent with less than 150 per cent of AWE. The proportions are slightly higher for families with 1 child and for families with 4 or more children.

However, these figures are potentially misleading since they do not reflect the relative income requirements of different family types. For example, it is obvious that a single person with an income of $20,000 can enjoy a much higher standard of living than a couple with three children and a joint income of $20,000.

Income distribution data are normally adjusted to reflect the differing income requirement of different families though the use of equivalence scales, which are a set of numbers expressing the relative incomes required by different types of families to attain a similar standard of living. For example, if the income of a couple without children is set as the base (1.0), then the equivalent income figure for a couple with one child might be 1.25, say. That is, a couple with one child would need on average 125 per cent of the income of a couple without children to achieve the same standard of living.

Equivalence scales can be derived from the application of econometric methods to data on household incomes and expenditure. There is considerable debate about different approaches and no one method has attracted universal support

TABLE 10 : FAMILIES WITH CHILDREN : INCOME UNIT INCOME BY NUMBER OF CHILDREN

Income Unit Joint Income	No. of Children									
	1		2		3		4+		Total	
	No '000	%	No '000	%	No '000	%	No '000	%	No '000	%
Less than AWE	337	45	322	36	145	34	63	41	845	38
Less than 125% of AWE	448	60	489	54	219	51	91	59	1,247	56
Less than 150% of AWE	529	71	628	69	285	67	109	71	1,551	70
Total	744	100	904	100	427	100	154	100	2,229	100

Source: 1981-82 Income and Housing Survey unit record tape, updated by movements in the CPI.

TABLE 11 : FAMILIES WITH CHILDREN : EQUIVALENT INCOME UNIT INCOME BY NUMBER OF CHILDREN

Equivalent Income Unit Income	No. of Children			
	1 (%)	2 (%)	3 (%)	4+ (%)
Less than AWE equivalent	45	51	65	79
Less than equivalent of 125% AWE	60	70	82	89
Less than equivalent of 150% AWE	71	86	89	93
Total	100	100	100	100

Source: 1981-82 Income and Housing Survey unit record tape, updated by movements in the CPI, and adjusted by OECD equivalence scales.

(Whiteford, 1985). The OECD, however, have proposed the use of a set of scales for 'countries which have not established their own equivalence scales', (1982) as part of its social indicators program.

Table 11 shows the results of the application of the OECD equivalence scales to the figures in Table 10. The results are strikingly different. For example, while 41 per cent of the families with 4 children have nominal incomes under AWE, 79 per cent of families with 4 or more children have 'equivalent' incomes less than AWE, if a one child family is taken as an appropriate base. If the base had been taken as a family with children, then the proportion with low adjusted incomes would be even greater.

While these figures may vary if scales other than those proposed by the OECD were to be used, the general result would be the same - the proportion of families, particularly large families, falling below some income cut-off like AWE or 150 percent of AWE will increase once their relative income requirements are taken into account. Of course, this is a major rationale for programs like family allowances, the dependent spouse rebate and the sole parent rebate - they seek to recognise the relative income requirements of different types of families. For this reasons, equivalence scales are an important measure when considering to what extent social programs achieve their horizontal equity objectives (Parker, 1985).

Some similar points can be made about the distributional impact of the DSR. A new study by Helen Brownlee of the Institute of Family Studies (1985) has shown that 60 per cent of the male taxpayers receiving a full or partial dependent spouse rebate and without dependent children had incomes less than $20,000 per year and a further 32 per cent had incomes between $20,000 and $35,000 per year. Of couples with dependent children and where the male received a full or partial DSR, 45 per cent had incomes less than $20,000 per year and a further 46 per cent had incomes between $20,000 and $35,000 per year. If we take persons with incomes in the top tax bracket as well-off, then it is apparent that more than 90 per cent of the recipients of the DSR could not be so classified.

Nevertheless, the DSR is less progressive in its incidence than family allowances. The main reason for this is that low income groups pay limited income tax and therefore can take little advantage of the rebate. It is important to note, however, that the DSR is of great importance to some low income groups, particularly married beneficiaries. Since benefits are usually paid entirely to one spouse, married beneficiaries generally take full advantage of the DSR, ie if it was not for the rebate they would be liable for an additional tax bill of $830 or $1,030 per year. In contrast, the married rate of pension is split between husband and wife, who thus do not receive the benefit of the DSR, but do not need to do so.

Additionally, it should be noted that proposals to income-test the DSR or to income-test or tax family allowances involve a redistribution of income, but only from the population who have children or dependent spouses. For example, a cut in family allowances through their income-testing or taxing is no different in effect from an increase in the tax liabilities of those with children. If it is considered appropriate to increase the tax burdens of middle and higher income groups with children, equity would suggest that the tax burdens of high income individuals without children should be similarly increased. In fact, the decline in the real value of family allowances since their introduction has constituted an effective shift in the tax burden away from individuals on to families with children. The effect would be accentuated if cuts in family allowances or the DSR were used to finance reductions in general income tax rates.

4.5 Incentives to work

The effects of the social security system on incentives to work should generally be of greater concern in the area of assistance for families than in other areas of social security. This is so for a number of reasons.

First, many of the group about whom there is great concern with work incentives are more likely to have children than other groups of social security recipients, eg. sole parent pensioners who by definition have children, married unemployment and sickness beneficiaries and invalid pensioners (who are far more likely to have children than do age pensioners), and FIS recipients (who again by definition have children). That is, people who are of an age to have the care of children are also generally of prime working age.

Second, the presence of children means that the family faces greater costs in absolute terms than do those without children. But the inadequacy of payments for children means that their social security incomes are insufficient to meet these needs. Therefore, those with children need to make greater efforts than others to make good this shortfall.

But, third, when they therefore seek work, those with children face greater structural barriers than do many of those without children. The interaction of the taxation and social security systems means that persons with children often face higher effective marginal tax rates than do other social security recipients. For example, some of the highest effective marginal tax rates faced by social security clients are included in the following cases:

- married beneficiaries with children can face EMTRs of 125 per cent over certain income ranges, where their additional payments for children are withdrawn dollar for dollar under the benefit income test, but because these additional payments are not taxable, they must still pay 25 cents in income tax on the dollar of private income they didn't get the benefit of; and

- sole parent pensioners in certain income ranges can, for an additional dollar of private income, lose fifty cents of non-taxable pension for children, pay 30 cents of income tax and pay 20 cents for the Medicare levy phase-in.

While these two situations are obviously uncommon, it should be noted that they are among the comparatively few situations where the structure of the social security and the tax systems alone combine to such an extent that people are no better off from working. A further example is that of FIS recipients, all of whom face an effective marginal tax rate of at least 75 per cent when other individuals in their income ranges face only 25 or 30 per cent.

Fourth, many forms of assistance other than social security cash payments are concentrated on families with children, eg. income-tested education allowances, child care relief or priority of access. Loss of these benefits can 'stack' on the top of the tax-social security interaction and further reduce the benefits of work.

To a very large extent, these sorts of problems arise because many different levels of Government and a range of Departments at the same level of government wish to concentrate their assistance on families with children and in particular on low income families. That is, this is a consequence of concentration on tightly-targeted, selective welfare programs.

5. Conclusion

It should be noted that this discussion of issues has been undertaken within a narrow framework. Current arrangements recognise and support only some forms of dependency, and in particular are mainly directed towards dependencies that arise in the context of traditional family relationships (as discussed earlier). It is arguable that current arrangements reinforce the relationships that produce dependency; while it is desirable to recognise immediate financial needs, given the concerns discussed above, it may also be considered appropriate to investigate alternative approaches to family income support.

These concerns, nevertheless, should not be unexpected. Given the scope of the programs discussed - covering some 2.5 million families and 4.3 million children at an annual cost in excess of $4,000 million - it would be surprising if there were not major concerns with the effectiveness and appropriateness of current income support arrangements for families.

In fact, as indicated in the opening address, the Minister for Social Security has recently announced a two-year review of social security policies, and as part of this process a review of 'the continuing relevance of existing programs of income support for families' and 'the most appropriate mix of cash payments and tax assistance for families with children' (Browne, 1985:4). It has been the purpose of this paper to raise some of the issues that might be considered in such a review.

NOTES

(1) As part of its tax reform measures, the Government has announced that from 1 September 1986 the tax threshold will be increased to $5,100 per year, and from the 1986-87 year the threshold will be available only pro rata for taxpayers joining the workforce on a full-time basis for the first time and those leaving Australia permanently.

(2) It can be argued that this has in fact been the case over the past ten years - the sole parent rebate and the dependent spouse rebate for those with children have increased in value in real terms since 1976-77, the dependent spouse rebate for those without children has decreased in real value but by less than the decline in the real value of family allowances. See Table 8.

(3) It should be emphasised, however, that while cash transfers and tax concessions do not strictly add to the size of the public sector, they do represent a constraint on government choices. The revenues not collected or rebated because of tax concessions and the moneys redistributed through cash transfers are (generally) not available for the government's other objectives. Whether family allowances, for example, are paid as a cash transfer or a tax rebate or whether the DSR was cashed-out or unchanged does not affect the size of the budget deficit - it is still money forgone. If governments wish to increase assistance for certain groups, it does not matter if the assistance is provided in the form of cash payments or tax rebates. If the budget deficit is not to be increased, it would still be necessary to either increase taxes elsewhere or reduce other expenditures.

(4) Some other families also received increased assistance for their children because the separate net income test which applied to the tax rebates was not applied to family allowances.

(5) See Raymond and Whiteford (1984), Whiteford, Raymond and Moore (1984) and Saunders (1982) for further details.

(6) Between 1933 and 1983, the labour force participation rate of married women of working age rose from around 6 per cent to around 47 per cent (Ross, 1984:227).

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POVERTY AFTER HOUSING COSTS

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1. INTRODUCTION

In recent weeks, poverty and housing have been headline issues, especially in Sydney. The reason is partly the release of the **Study into Homelessness and Inadequate Housing** by the Department of Housing and Construction. This report indicated that there could be, in Australia, as many as 100,000 persons without secure housing (that is, homeless) and 700,000 families who have incomes below the poverty line after they have paid for their housing. The reason why the report made headlines in Sydney is that this city is particularly affected by housing problems. It has the highest housing costs of all major Australian cities and is considered to have very high levels of poverty after housing costs have been paid.

Studies conducted at the Social Welfare Research Centre have also been examining the relationship between poverty and housing costs. This paper is intended to summarise the most important findings made so far in this research. It will present our estimates of national levels of poverty measured before and after people have paid for their housing, after describing some of the basic concepts used in poverty analysis. The paper, however, does not provide details either of the techniques used or the results obtained. They will be available shortly in another SWRC Reports and Proceedings, B. Bradbury, C. Rossiter and J. Vipond, **Poverty Before and After Paying for Housing Costs.** Nor are we here concerned with regional differences in poverty or housing. Evidence on Sydney's housing problems has received much recent attention (Henderson and Hough, 1984; Nevile, Vipond and Warren, 1984). Statistics on poverty and housing costs in metropolitan and non-metropolitan areas in each mainland State are briefly compared in Bradbury and Vipond (1985).

SWRC research findings on the extent of poverty nationally are not very different from those of the study of the Department of Housing and Construction because we used the same data source. (We had no information at all on homelessness and therefore have no additional estimates.) Our perspective and interpretation of the housing and poverty issue are, however, somewhat different. We are less concerned with the state of the housing stock and questions of housing supply. We are more concerned with the people who are in poverty - their family types and their income levels before and after they have paid for their housing. We are especially concerned with how poverty has changed since the early 70s and with the implications of the changes. Because of that interest, our methods of measuring poverty followed closely those established by the Commission of Inquiry into Poverty (1975).

2. CONCEPTS USED IN THE ANALYSIS OF POVERTY

(1) The Income Unit

In the analysis of poverty, it is necessary to begin by choosing a classification system for the population. Is poverty an individual or a family problem?

The Commission of Inquiry into Poverty chose to define poverty as a matter for families and used an 'income unit' as a way of describing the nuclear family. Basically, an income unit may consist of

- a single person
- a couple
- a couple and dependants
- a single parent and dependants

Poverty is measured by the number of income units living below the poverty line.

(2) The Poverty Line

The second important concept in the analysis of poverty refers to the means of dividing the population into those living in poverty and those not in poverty. The poverty line is a measure of income that divides the two categories. It is based on annual income, though we refer to the level of income in weekly terms. That is, we assume that if a family has, over a year, an average weekly income below the poverty line then that family is in poverty.

The income used for the standard poverty line, as defined by the Commission of Inquiry into Poverty, is the income that will provide an 'austere' standard of living for a couple plus two children. The current values for the poverty line are given in Table 1. As a family of four is allowed less than $250 per week and a single person $131.30, it is clear that the poverty line does indeed provide for basic requirements only. The examples in the table show that the incomes that define poverty are different for families of different sizes. The technique of creating 'equivalence scales' was used by the Commission of Inquiry into Poverty to determine the income required to sustain the same living standards among families, whatever their composition and size. Manning (1982) describes the origins of the poverty line, its methods and how it is updated.

Of course, in our analysis we used the poverty line applicable to the time our data were collected. Our income data referred to the year 1981/82, our information on weekly accommodation costs was collected for the time of the survey between September and November 1982. We adapted the statistics on incomes to refer to the same period as accommodation costs and used for our poverty line an average of the poverty line published for September 1982 and that published for December 1982.

The values listed in Table 1 show that economies of scale are assumed in living arrangements. A family of four is assumed to need less than twice the income of a family that consists of one person. In accommodation costs, a family of four is assumed to require $55.70

TABLE 1 : POVERTY LINE INCOMES, JUNE 1985

	Family[1]	Single Person
1. Poverty Line Income		
$ per week after tax	246.60	131.30
2. After Housing-Cost Poverty Line		
$ per week after tax	190.90	88.30
3. Allowance for Accommodation		
$ per week	55.70	43.00
4. Accommodation Allowance as % after tax Income	22.6	32.7

Note: 1. Family = couple plus two dependent children

Source: Social Policy Research Unit, Newsletter, No.3, October 1985, Melbourne.

per week while a single person needs $43.00 per week.

The Commission of Inquiry into Poverty established the practice of measuring poverty in two ways. First there was the number of income units with incomes below the poverty line. Second, there was the number of income units whose incomes (after tax) minus their individual outlays for housing were less than the after housing costs poverty line.

Many criticisms have been made of the methods used by the Commission of Inquiry into Poverty (Cass, 1985; Manning, 1982; Saunders, 1980; Social Welfare Policy Secretariat, 1981; Stanton, 1980). The importance of their work in establishing a benchmark of poverty before the failures of the Australian economy in the 1970s and 1980s is so great, however, that the SWRC research has concentrated on replicating their techniques rather than trying to devise new methods. The only major change we have made is that we have not omitted juvenile income units from our analysis as did the Poverty Inquiry. Juvenile income units are defined as people aged under 21 who are not married or have no dependants. The Commission of Inquiry into Poverty excluded them from their general measures of poverty because their financial situations are often ambiguous as they may or may not be dependent on their families. We excluded these people only if they lived with their parents. If they lived apart, we treated them as independent income units. More precisely, all income units who were children of their household head were excluded from the analysis. Dependent children were included with their parents.

While this is not the place to attempt to justify the procedures of the Commission of Inquiry into Poverty, some comments must be made on their argument that two measures of poverty in Australia are necessary. Stanton (1980) has suggested that there is nothing special about housing. Why not measure poverty after transport costs have been paid by using an after-transport poverty line?

The main justification for deducting housing costs when measuring poverty is that Australia has a high proportion of owner occupiers many of whom are elderly and have low incomes. These people pay very little for shelter (especially as repairs and maintenance are excluded from accommodation costs in the statistics). Their net income after paying for housing is often higher than the net income of people who have to pay rent out of low income. People who own their own houses are less likely to live in poverty than rent-paying tenants on the same income.

There are also more theoretical reasons for the separate treatment of housing, linked to the way that poverty is measured. Because of a lack of other statistics, poverty is measured on the basis of people's incomes. Wealth is ignored. Yet, the poverty of two people with nil income is very different if one has $100,000 of assets and the other owns nothing. Measuring poverty net of housing costs permits us to take into account very approximately differences in the ownership of one type of asset - the family home. Among the majority of Australian families, this is their most important asset. These measures do not account for the commercial value of the home, but they do attempt to incorporate the value of the shelter provided by owner-occupied housing, as compared with other tenures.

3. POVERTY IN 1972/73

As Table 2 illustrates, the Commission of Inquiry into Poverty found that in 1972/73:

- 10.2% of income units (families) lived below the poverty line
- 6.7% lived below the revised poverty line after paying for their housing costs.

The difference was mainly attributed to the high proportion of poor families that were elderly. As Table 3 indicates, almost half of

TABLE 2 : THE INCIDENCE OF POVERTY IN 1972/73

Income Units in Australia with incomes	No.	% All Income Units
Below Poverty Line Before Housing Costs	399,432	10.2
Below Poverty Line After Housing Costs	262,372	6.7

Source: Commission of Inquiry into Poverty (1985), Poverty in Australia, AGPS, Canberra, Vol.1, Ch.3.

TABLE 3 : DISTRIBUTION OF POVERTY BEFORE AND AFTER HOUSING COSTS BY FAMILY TYPE

Family Type	% of All Income Units in Poverty			
	1972/73		1981/82	
	Before Housing	After Housing	Before Housing	After Housing
Elderly couples and individuals	42.9	20.7	13.5	7.6
Single Parents	11.3	14.5	15.8	14.7
Others	45.8	64.8	70.7	77.7

Source: Bradbury, B., Rossiter, C. and Vipond, J. (forthcoming), Poverty Before and After Paying for Housing Costs, Social Welfare Research Centre, University of New South Wales, Kensington, Table 6.2.

these families were aged single persons or couples. However, elderly people formed a much smaller proportion of the smaller number of families that were poor once the costs of housing had been deducted. It is generally considered that the proportion of families below the after-housing-costs poverty line (6.7%) is representative of the real amount of poverty that existed in 1972/73.

Major changes occurred in the social security system and the economy after 1972/73 - changes which included substantial real increases in pension levels, smaller increases in benefit rates and massive increases in unemployment.

4. POVERTY IN 1981/82

In 1981/82, 11.8% of income units in Australia had incomes below the poverty line before they had paid for accommodation. Poverty measured after people had paid for their housing costs was not much lower. It was 11.2%.

Table 4 shows how the incidence of poverty varied according to family type. Single parents were most likely to be living in poverty, with almost half having incomes below the poverty line. After housing had been paid for, 40% were in poverty. Single persons were the next most likely to be in poverty, especially those who were young. Moreover, their poverty was greater when we measure it after housing costs compared with before housing costs. The elderly had a relatively low incidence of poverty which was reduced by their access to low cost accommodation.

It should be noted, however, that although Table 4 indicates that the incidence of poverty was very high amongst single parents and single persons in particular, the actual number in poverty was much less than the number of couples with dependants living below the poverty line. This is shown in Table 3. Only 14.7% of all

TABLE 4 : THE INCIDENCE OF POVERTY IN 1981/82

Proportion of all Australian income units
who have incomes below the poverty line
by family type

Family type	Before housing	After paying for housing
	%	%
All	11.8	11.2
Single parents	46.2	40.8
Single persons 15-24	15.7	20.6
25-64	14.1	12.8
65+	11.0	5.2
Couples with dependants	11.6	12.2
Couples without dependants		
Head aged less than 65	4.7	4.7
Head aged over 64	5.4	3.9

Source: Bradbury, B., Rossiter, C. and Vipond, J. (1985), Poverty, Housing and Poverty After Housing Costs, Social Welfare Research Centre, University of New South Wales, Kensington, Table 2.1.

income units in poverty in 1981/82 were single parents, as compared with 77.7% of those who were neither elderly nor single parents. Of these other groups, a large proportion were couples with dependent children. The low incidence of poverty among the aged was reflected in their share of total poverty. Of all families that were poor before they had paid for their housing costs in 1981/82, 13.5% had heads aged 65 or over. In 1972/73, the proportion had been 42.9 per cent (Table 3).

5. THE CONTRAST BETWEEN POVERTY IN 1972/73 AND 1981/82

Figure 1 illustrates the most important changes in poverty during the 1970s.

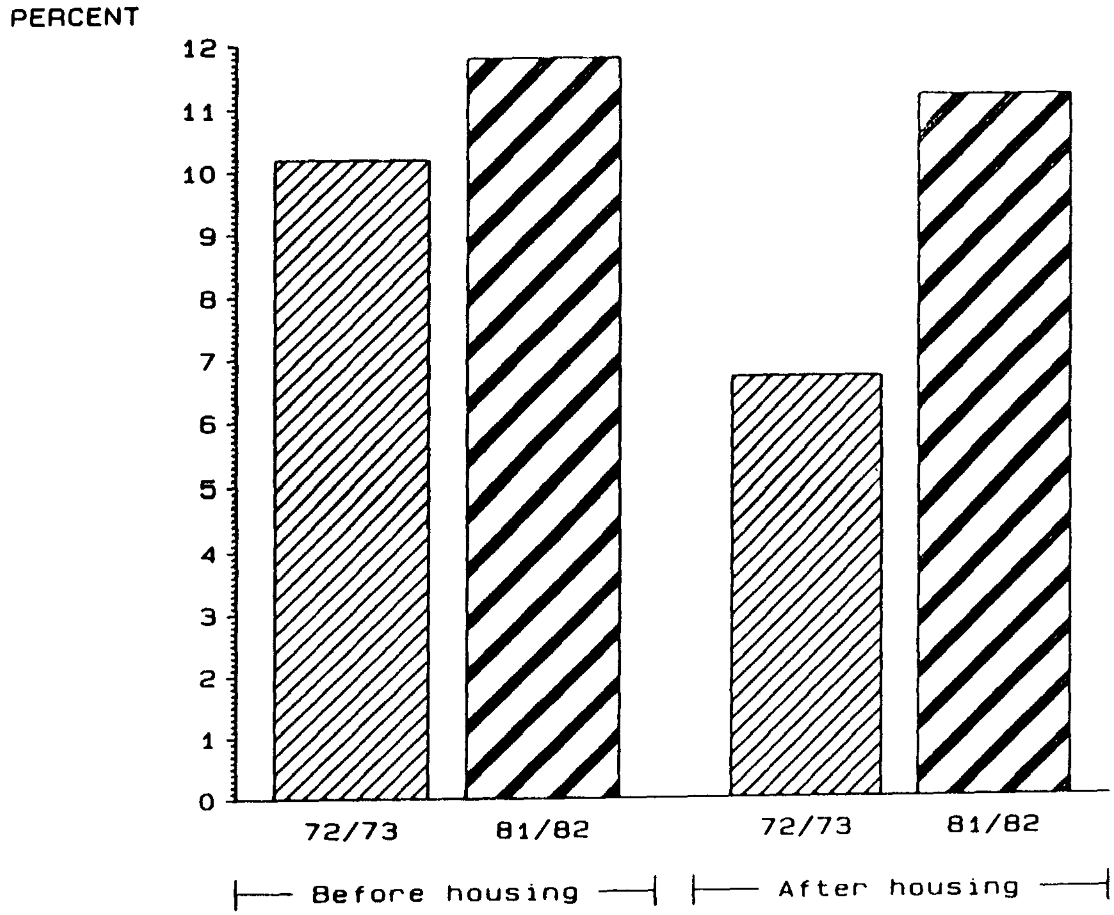
Between 1972/73 and 1981/82, there was hardly any change in poverty when it was measured by the proportion of Australian families that had incomes below the poverty line before paying for housing costs. Our figures show a small increase but they are not exact for several reasons: they are based on a sample; there are possible inaccuracies or inconsistencies in the answers to questions; the measurement of poverty varies slightly with the precise definitions used in the many statistical procedures, and so on. The small increase, therefore, may be due to statistical factors.

Thus, if we were to look only at incomes we should see little change in the extent of poverty between 1972/73 and 1981/82, despite the marked decline in our economic performance.

The figures for poverty measured after housing costs, however, suggest that poverty has increased. In 1972/73, it was less than 7%. In 1981/82 it was more than 11%. This rise is unlikely to be due to statistical variation alone.

FIG 1 CHANGES IN POVERTY, 1972/73 TO 1981/82

Percentage of income units living below the poverty line



The difference in trends in poverty may be attributable to the changing nature of poverty. As we have shown, it has largely shifted from the elderly to the young.

Since 1972, increased pensions have raised the incomes of elderly people above the poverty line, so that the elderly are less likely to be in poverty than they once were. Younger people are now much more likely to be in poverty than they were in the early 1970s. This is partly attributable to increased numbers of single parents and in part it is due to higher unemployment.

Poverty level incomes have a severe impact upon young people because they are at a stage of the life cycle when accommodation costs are likely to be high. They are more likely than the elderly to be in costly forms of housing tenure. That is, they are more likely to be private sector tenants or owner purchasers and less likely to be outright owners.

Figure 1 presents important information simply by its juxtaposition of the trends in poverty measured before and after housing costs. The measures have been presented separately before. It is, however, the difference between the two trends that help us to better understand poverty and housing problems.

On poverty, Figure 1 shows why there can be argument as to whether or not there has been a rise in poverty since 1972/73. This topic has been debated, especially by researchers who measure income and people who administer the provision of emergency services (SWPS, 1981). The former can point to the evidence that the proportion of the population with incomes below the poverty line has hardly changed. This has failed to convince the people who faced the mounting demands for emergency assistance. The evidence on poverty after housing costs supports their view that poverty has increased. People do have to pay for shelter. After accommodation costs have been taken into account, a bigger proportion of the population now do not have enough income left to live on compared with the situation in 1972/73.

On housing, Figure 1 provides an explanation as to why we have a housing problem despite the fact that housing costs (except for interest rates and housing authority rents) have not been rising exceptionally fast. It is not that there are more people with low incomes. Rather, it is that the people who are at the stage of their life cycle when housing costs are heaviest have low incomes. Increasing poverty among younger people means that more people cannot afford adequate housing. When poverty was concentrated among elderly owner occupiers, housing demand was less affected by it. The change in the age of people in poverty has increased our housing problems.

6. CONCLUSIONS

Although in the early 1980s there is little difference in results from the two measures of poverty, there is a strong theoretical case that poverty should be measured after housing costs have been paid. The high level of owner occupation among elderly low-income groups in Australia ameliorates their poverty, while high rent and mortgage payments among younger, poor families worsens their situations. Moreover, comparisons of poverty in the early 1970s and early 1980s are more revealing if made in terms of the after housing cost measures.

Poverty after housing costs has increased markedly since the Commission of Inquiry into Poverty reported their results. From involving less than 7% of Australian families in 1972/73, it has risen to affect more than 11%.

Higher poverty now seems more truly to reflect the actual circumstances of low income families in the two periods than does the almost constant fraction of families that had incomes below the poverty line before paying for housing costs. It is compatible with other measures that show an increased proportion of people in poverty and a very great increase in the proportion of children in poverty (Cass, 1985; Gallagher, 1985).

There has been no reason to suggest that poverty after housing has declined since 1981/82. Unemployment increased rapidly. Although it has recently begun to decline, it is still higher than it was in 1981/82. Home loan interest rates, a major determinant of the accommodation costs of owner purchasers, fell in 1983 and 1984 but are now back at their ceiling levels. It is possible that the poverty estimates of 1981/82 would underestimate the extent of poverty in 1985.

This problem of poverty raises very great difficulties both for the income maintenance system and for housing policies. The problem of poverty after housing costs cannot be reduced to a simple choice between raising rental assistance to recipients of social security payments and building more dwellings for rent by housing authorities, although both measures would assist in reducing overall poverty levels. These suggestions, however, ignore more than one quarter of the families in poverty, that is, those who are purchasing their own dwellings (Bradbury, Rossiter and Vipond, 1986, forthcoming, Ch.4). We have policies to assist people to become home owners, but no policies to help keep them in that form of tenure when their incomes drop or their accommodation costs rise.

The problem needs to be reviewed in the light of the complete income security system, the taxation system and our methods of paying for housing. In pointing out its failures, however, it is important not to overlook its virtues. For instance, as an alternative scenario, suppose that most elderly Australians had been reliant during the 1970s upon private superannuation schemes and that they had now owned their own homes. We can imagine that inflation would have left many of them in poverty in the 1980s. Our figures indicate that the present system in fact worked quite well for the majority of elderly people.

The present system is not, however, coping with the new forms of poverty among younger people which have resulted from the decline in the Australian economy since the mid 1970s. One solution would be to improve our economic performance. Perhaps it is more realistic to suggest the need for adaptation of the social security system.

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OLDER WORKERS, UNEMPLOYMENT AND WELFARE PAYMENTS

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There has been a great deal of very justified concern in recent years about the deteriorating position of young people in the workforce. However, the most dramatic change in employment has actually happened at the other end of the age range. Since the early 1970s Australia has recorded an extra-ordinary decline in the labour force participation rates of people aged 55 years and over.[1] [2]

In 1972, some 90.6 per cent of all men aged 55-59 were in the workforce. By 1985, the participation rate of men in this age group had fallen to 76.4 per cent. Among men aged 60-64 years, the participation rate has fallen from 76.5 per cent in 1972 to 42.7 per cent in 1985. Among men aged 65 and over, participation rates fell in the same period from 22.3 per cent to 8.9 per cent.

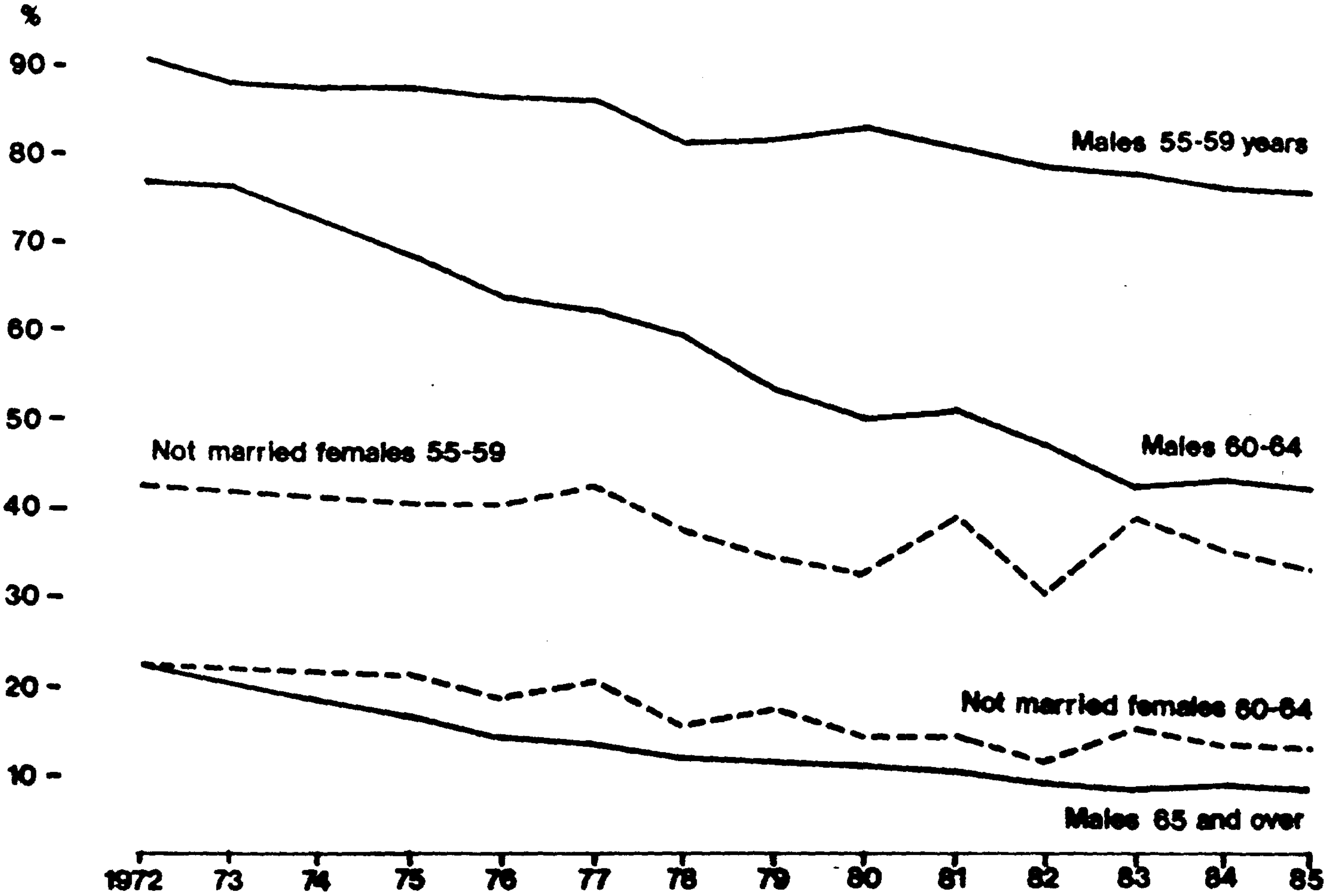
Among women, there is a mixed picture. Married women in the age ranges over 55 years underwent a rapid increase in their workforce participation until 1976-77 but since then the growth has ceased and there has been a slight decline. For older unmarried women, however, the position has been similar to that of older men. The statistical categories 'Other women' or 'Not married women' comprise those who are never married, widowed and divorced, that is, female breadwinners. The participation rate of these women aged 55-59 fell from 42.6 per cent in 1972 to 33.3 per cent in 1985. For unmarried women aged 60-64, the decline in this period was from 22.4 per cent to 13.3 per cent. For the same women aged 65 and over the fall was from 3.8 per cent in 1972 to 1.7 per cent. [3]

This is a social change of major proportion, even considering only the males involved. There was a total of 495,482 men aged 55 and over in the workforce in 1984. If the participation rates had been maintained at their 1974 levels, there would have been an additional 195,543 men of these ages in the labour force, all other things being equal. The older male workforce alone would have been nearly 30 per cent greater.

The causes and implications of this social change are, however, far less clear. Recently, the beginnings of a debate on the issue has emerged amongst labour market economists. Some have argued that the cause of the phenomenon is the long recession of the past decade and that those who have left the workforce have largely done so involuntarily. According to this view, the workforce drop-outs constitute a very large population of hidden unemployed or discouraged workers. (Discouraged workers are those who become unemployed, who unsuccessfully seek work and then give up the search. Their withdrawal from the labour force means they are no longer officially

Figure 1: Labour Force Participation Rates by Age,

Australia 1974-1985



Source: Australian Bureau of Statistics, The Labour Force.

counted as unemployed.) On the other hand, others have argued that the great majority of those who have left the workforce have done so quite voluntarily in order to take advantage of more generous social welfare payments that have been available since the mid-1970s, especially war service pensions. This second view sees these people not as drop-outs but as early retirees who reduce the competition for jobs and thus make more positions available to younger workers. Rather than boosting the hidden unemployment rate, early retirement constitutes, from this perspective, a major reduction in what would otherwise have been a much higher unemployment rate. Let us examine these competing claims.

Older males and hidden unemployment

In their book **Hidden Unemployment** Peter Stricker and Peter Sheehan examine the trends in older male employment participation. They compare the dramatic decline in these rates between 1973 and 1980 with long term trends established over the greater part of the twentieth century. To give an example of their method, they show that between 1921 and 1973 there was a decline in workforce participation of men aged 55-59 years of less than 5 percentage points; but from 1973-80 there was a contraction of 6 percentage points. Similar patterns exist for other age groups. Stricker and Sheehan take the 52 year trend from 1921-73 as their long-term trend and they project it onto graphs showing actual rates from 1966 to 1980, as in Figures 2, 3 and 4. Where there is a major gap between the line for the long term trend and the figures actually recorded each year, there exists hidden employment.

Using this method, Stricker and Sheehan calculate the hidden unemployment rate as at August 1979. Their estimates are:

- for men aged 45-54 years: 19,000 hidden unemployed which was more than the 17,200 recorded unemployed at the time. This lifted the unemployment rate from a recorded figure of 2.4 per cent to 5 per cent.
- for men aged 55-59 years: there were 15,000 hidden unemployed (compared to 8800 recorded unemployed) which lifted the total unemployment rate from the recorded figure of 3.0 per cent to 8 per cent.
- for men aged 60-64 years: there were 37,000 hidden unemployed (compared to 3900 recorded unemployed) which lifted the total rate from the recorded figure of 2.6 per cent to 13 per cent.

Figure 2: Labour force participation rates, actual and trend, males 55-59 years, 1966 to 1980

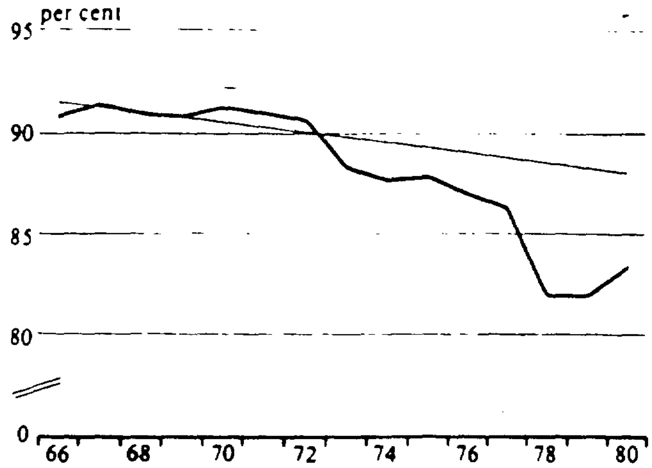


Figure 3: Labour force participation rates, actual and trend, males 60-64 years, 1966 to 1980

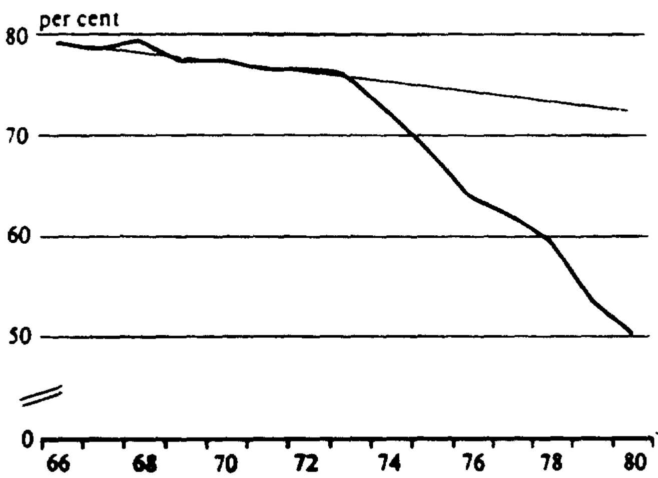
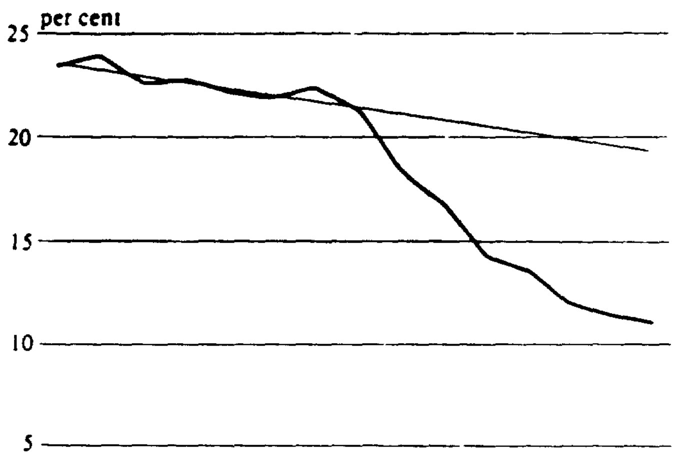


Figure 4: Labour force participation rates, actual and trend, males 65 years and over, 1966 to 1980



Source: Stricker and Sheehan, pages 122, 128 and 129.

- for men aged 65 years and over: there were 41,000 hidden unemployed (compared to only 1000 recorded unemployed) which lifted the total unemployment rate from the recorded figure of 1.5 per cent to 39 per cent.

Overall, the authors conclude, in August 1979 some 140,000 men aged 45 and over were unemployed and the total unemployment rate among these men was 11 per cent, more than four times the recorded unemployment rate. [4]

Stricker and Sheehan pointed out that although these hidden unemployed did not receive unemployment benefits they nonetheless provoked a major increase in social welfare payments in the late 1970s, especially in invalid pension and war service pension payments. By 1980, the cost to the government of the withdrawal of this labour had reached $400 million, on top of unemployment benefit payments. No less than 25 per cent of all Australian men aged 55-64 and 55 per cent of men aged 55 years and over were receiving pensions or benefits by 1980. The authors argue against the view that it was the pensions themselves that might have attracted people out of the workforce.

> One might argue that the availability of these pensions was a necessary condition for the withdrawal of many individuals from the labour force. But this does not imply that those are not hidden unemployed, provided that another necessary condition of their withdrawal was the unavailability of jobs. In our view the availability of these pensions has greatly facilitated the rise in hidden unemployment, and if they had not been available Australia would have seen more recorded, and less hidden unemployment over the past five years. [5]

Older males and social welfare payments

Another economist, Bill Merrilees, has looked at the figures for the same period as Stricker and Sheehan but has come to a different conclusion. Merrilees argues that social welfare payments are the major cause of the mass exodus of older males from the workforce. He says there are two aspects of these payments that are responsible: the amount paid and the eligibility criteria for payments. [6]

Males aged 65 and over: The main influence Merrilees sees affecting this group is the aged pension. There was a gradual increase in the real value of aged pensions in the 1950s and 1960s but an acceleration in the 1970s, especially under the Whitlam government. By 1980, the real value of the married rate aged pension was 50 per cent more than in 1970 (see Figure 5). Merrilees finds correlations between these rates of payments and workforce participation. Over the 1966-72 period the downward trend in this age group's participation rate was modest and gradual, with a corresponding modest and gradual increase in the real value of the aged pension. Between 1972-1980 the real value of the aged pension accelerated, as did the labour force participation rate of males. At the same time, eligibility criteria have changed, although their effects are less clear. In 1972 the threshold amount of additional income allowed a pensioner married couple was doubled to $34 a week; in 1973 the means test was abolished for those aged 75 and over and in 1975 for those aged 70-74; in 1976 asset holdings were no longer part of the means test. Eased eligibility criteria work both ways, Merrilees acknowledges. Easier access could encourage some to retire earlier while existing pensioners could supplement their pensions with part-time work. [7]

Males aged 55-64: There are three types of social welfare payment that have influenced the behaviour of men in this age group, Merrilees argues. For men aged 55-59, the increased incidence of invalid pensioners accounts for nearly all of the 1973-80 downward trend in labour force participation. There has not been any genuine increase in the health problems of men in this age group, he acknowledges, rather there has been a covert social welfare policy change assisted by more generous interpretations of illness by doctors. The second influential pension is the spouse's old age pension which, like other pensions, was substantially increased in the mid-1970s. Many males aged between 60 and 65 would have wives aged 60 or more who would be eligible if the men withdrew from the workforce. 'Thus the opportunity of financing early retirement with a spouse-only pension,' Merrilees writes, 'has never been better'. [8] The third and the dominant influence on men aged 60-64 years, he argues, has been the availability of the war service pension. This pension is available to those who have war service and who have reached 60 years old. In the decade of the 1970s, the number of ex-servicemen aged 60-64 doubled, reflecting the aging of the group who served in World War II. By June 1981, one out of every two males aged 60-64 was an ex-serviceman. Of those eligible, 61,300 took up this pension, which was 42 per cent of all ex-servicemen, or 21 per cent of all men in this age group. The service pension, Merrilees calculates, accounts for 15 of the 26 percentage points decline in workforce participation of these men between 1973 and 1981. 'It is clear,' he writes, 'that service pensions are the dominant explanatory force for this age group.' [9] Overall, Merrilees emphasises the voluntary character of the recent exodus. He writes:

> There are many older males, especially in low skilled blue collar and to a lesser extent white collar jobs who receive little job satisfaction. Given a moderate financial incentive (a higher real value of social security benefits) they are more than willing to hand in their spade or pen. The gradual rise in the 1960s and the rapid rise in the 1970s of real social security benefits has provided such a financial incentive. [10]

The BLMR's econometric model

It is not possible to use the two studies discussed so far to resolve this issue. Both find correlations between the changing participation rates of older men and their preferred explanations for this behaviour: in one case the continued decline of job opportunities; in the other the increased attractiveness of pensions. Each side can still claim its explanation encompasses the findings of the other. Into this situation has stepped another contributor to the debate, the Bureau of Labour Market Research. [11]

The BLMR constructed an econometric model through which it hoped to determine the relative importance of the various influences on the participation rates that have been so far discussed. It also wanted to use its model to predict future participation rates for older age groups. The Bureau points out that econometric models have limitations. They are only as good as the assumptions that are built into them and their projections are likely to be more reliable in the short term rather than the long term. However, they are superior to other forms of analyses, especially simple correlation and trend studies, because they can relate past trends to explanatory or causal factors and can accommodate likely changes in any of these factors.

Part of the BLMR study focussed on Sheehan and Stricker's explanation of the falling male participation rate as due to a 'discouraged worker' effect. The BLMR found a significant but nonetheless small number of discouraged workers in the period studied by Stricker and Sheehan. These researchers had found discouraged workers in the following numbers :

Sheehan and Stricker study - 1978-79

Age group	Total discouraged workers
55-59	15,000
60-64	37,000
65 and over	41,000
Total	95,000

However, the BLMR's model found the following results:

BLMR econometric model - 1978-79

Age group	Total discouraged workers
55-59	4,000
60-64	5,000
65 and over	5,000
Total	14,000

From these results, the BLMR concluded: 'The size of the discouraged worker problem at older ages has previously been vastly overstated.' [2] This overstatement even included Merrilees' study which had made one estimate of discouraged workers for men 65 years and over and had concluded there were 10,000 of them. The implications of the BLMR study are twofold: (i) Merrilees explanation of the reasons for the declining participation of older men is basically right; (ii) the previous estimates of total unemployment (that is, officially-recorded unemployment plus hidden unemployment) need to be radically re-scaled. Stricker and Sheehan calculated total unemployment rates for men aged 55-59, 60-64 and 65 and over as 8, 13 and 39 per cent respectively, compared to official figures of 3.0, 2.6 and 1.5 per cent. The BLMR says these figures should be 4.3, 5.8 and 8.5 per cent respectively. [13] That is, the official figures do understate the real position significantly but by nowhere near as much as Stricker and Sheehan had claimed.

As part of its econometric modelling process, the BLMR produced predictions of labour force participation rates of older workers in both the short and long term. The period covering the short-term projections is now up and we can compare them with the actual results recorded by the Australian Bureau of Statistics. The following table compares the BLMR predictions for 1982 to 1985 with the recorded results.

Participation rates of older males, Australia, 1982-1985: BLMR predictions and recorded results (per cent)

BLMR predictions - June rate each year

Age	1982	1983	1984	1985
55-59	80.8	78.9	77.3	76.4
60-64	45.7	40.8	37.1	33.5
65 and over	10.1	9.4	8.7	8.2

ABS recorded results - June rate each year

Age	1982	1983	1984	1985
55-59	80.4	78.2	79.7	76.9
60-64	47.5	44.6	44.5	42.9
65 and over	9.5	9.6	9.2	9.3

The actual results recorded for the 55-59 year age group are close to BLMR predictions but for the 60-64 age group they are far astray - nearly ten percentage points out of 33. Such a variation in the results suggests that what has gone wrong is not that they have given one of the common variables an incorrect weighting. That is, if they had been mistaken about, say, the future level of wages or the degree of economic growth, the predictions and the actual results should have followed paths with similar degrees of divergence for both the 55-59 and the 60-64 age groups. The very dissimilar paths actually recorded suggest that they have made wrong assumptions not about variables common to both age groups but about the influence of their explanatory or causal factors which are separate for each age group. The one that stands out most likely to be wrong is that of the attraction of pensions to men aged 60-64. This cannot have been as strong an influence on their behaviour as the BLMR model assumed, following Merrilees' assumption before them.

The fact that the participation rates for 60-64 year olds held up much stronger than expected throws weight back onto the labour market as an explanation for their behaviour. The improved employment conditions of 1984-85 appears to have over-ridden any attractions that welfare payments might have had. The long-term implications are that the condition of the labour market and the discouraged worker effect are much stronger influences on this age group than the BLMR assumed. Readjustments of BLMR estimates of hidden unemployment rates need to be made in the direction in which Stricker and Sheehan originally pointed.

Statistical analysis and human behaviour

One of the problems of understanding social phenomena from the methods discussed so far is that they involve jumping from statistically-recorded observations of behaviour to deductions about human motives. The debate has been conducted amongst labour market economists and it has skirted around the very large volume of historical and contemporary literature in the social policy field about popular attitudes towards welfare provision. To people who have studied this literature, the idea that an increase in welfare payments could by itself stimulate a mass exodus from the workforce is highly questionable. The literature, which goes back to observations made in the nineteenth century, suggests that where there is a real choice between employment and welfare, people will invariably choose the former, including some groups that had been widely regarded as unemployable. It is also widely documented that many types of welfare payments bear such social stigma that large numbers of eligible people do not claim them. [14]

In studying the motives of older men in the Australian workforce we should keep these factors in mind. For a start, the great part of their working lives had been spent under conditions of full employment. Between World War II and the early 1970s, the only adult males experiencing regular unemployment were seasonal and contract workers. Unemployment benefits, moreover, were very low compared to other benefits. Before 1972 the single adult unemployment benefit had only reached 11 per cent of average weekly earnings, that is, it was an amount hardly worth claiming by someone temporarily unemployed at the time. Older men thus had virtually no experience as unemployment benefit claimants. On top of this was the stigma attached to unemployment benefits in the period from 1974 to about 1981. No Australian welfare payment has ever been stigmatised to the extent that unemployment benefits were at this time. Political figures and the news media combined to portray unemployment beneficiaries as 'dole bludgers' and 'dole cheats' and claimed that up to one third of recipients were 'abusing the system'. [15] Older men who became unemployed therefore had several strong reasons for being reluctant to take up unemployment benefits.

On the other hand, the service pension which many of them did take up bears the opposite characteristics. As a recognition of having served one's country in what is regarded by everyone as a 'good' war, the service pension confers not social stigma but social dignity. The unemployed older man who elected to take the war service pension cannot, by that fact, be assumed to have voluntarily left the workforce. The war service pension for many should be seen as a more acceptable welfare substitute for the unemployment benefit.

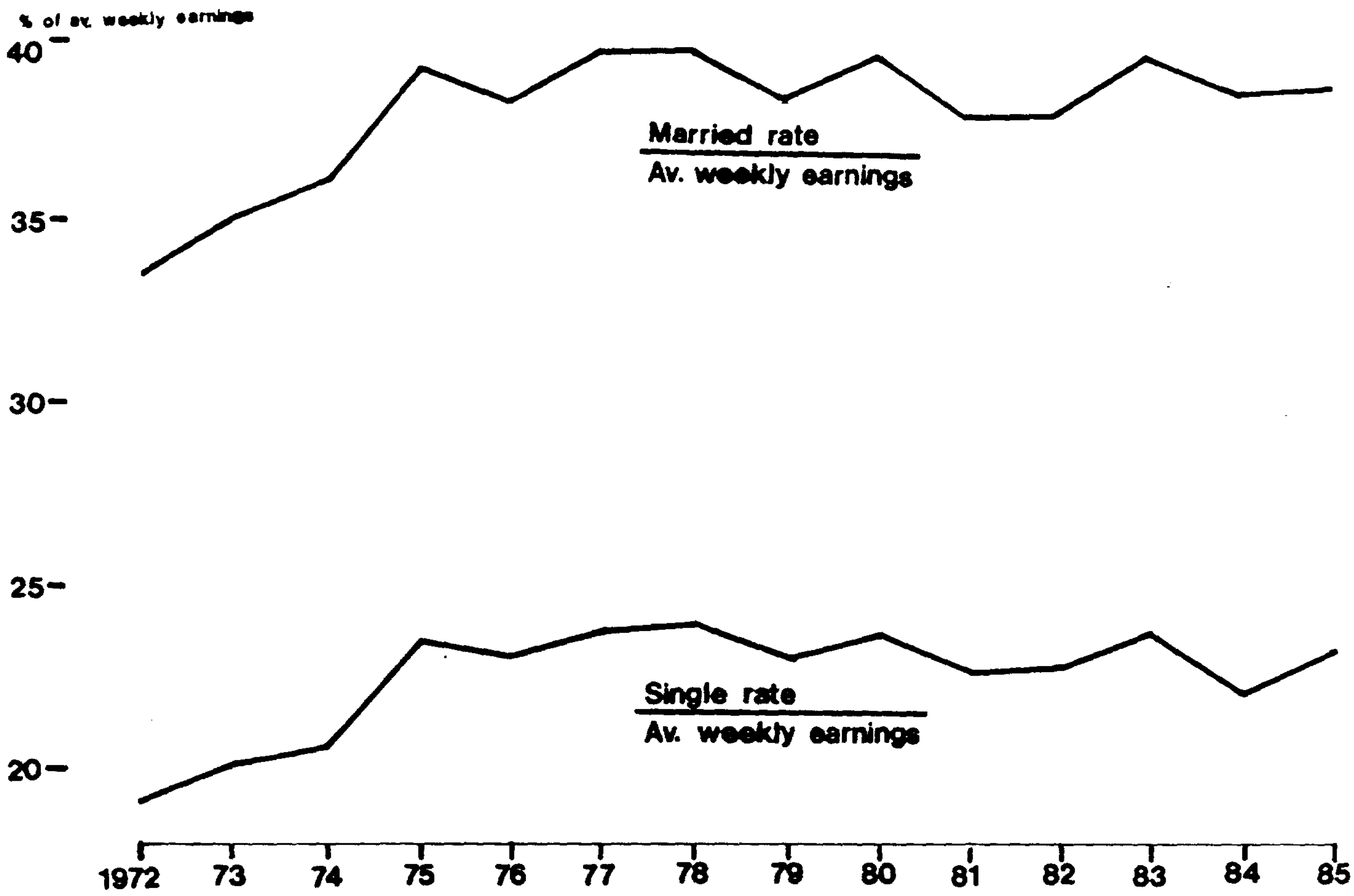
The assumption also made by Merrilees and the BLMR that there are large numbers of men voluntarily retiring because there were increases in the value of the invalid pension in the mid-1970s is even more extraordinary. As Figure 5 shows, these rates increased from 34 per cent of average weekly earnings in 1969 to 39 per cent in 1975. They have stayed at this 39 per cent level virtually ever since. These are poverty line benefits, yet they are supposed to have been the main factor responsible for the steady decline in the participation rate of 55-59 year old males from 90 per cent in 1972 to 76 per cent in 1985. Neither Merrilees nor the BLMR offer any explanation why an increase in pensions made only between 1972 and 1975 could continue to influence a declining workforce participation trend ten years down the line. At the same time, however, there has been an almost continuous deterioration in the job opportunities of the same men, a fact that offers a far more plausible explanation of their motivation.

In a labour market explanation of older men's behaviour, there are three other issues that, together, are relevant: (i) the duration of unemployment experienced by this group, (ii) the reasons why unemployed older men lose their jobs, and (iii) their perceptions of their own employability.

(i) **Duration of unemployment:** The average duration of unemployment among people aged 55 and over peaked in 1981 at 70.2 weeks, that is, about 16 months. This was exactly double the duration experienced by the average unemployed person at the time. By 1983 the figure for those over 55 had fallen but was still 61.5 weeks or 14 months. Because the experience of unemployment

Figure 5: Age/Invalid Pensions Compared to

Earnings, Australia 1972-1985



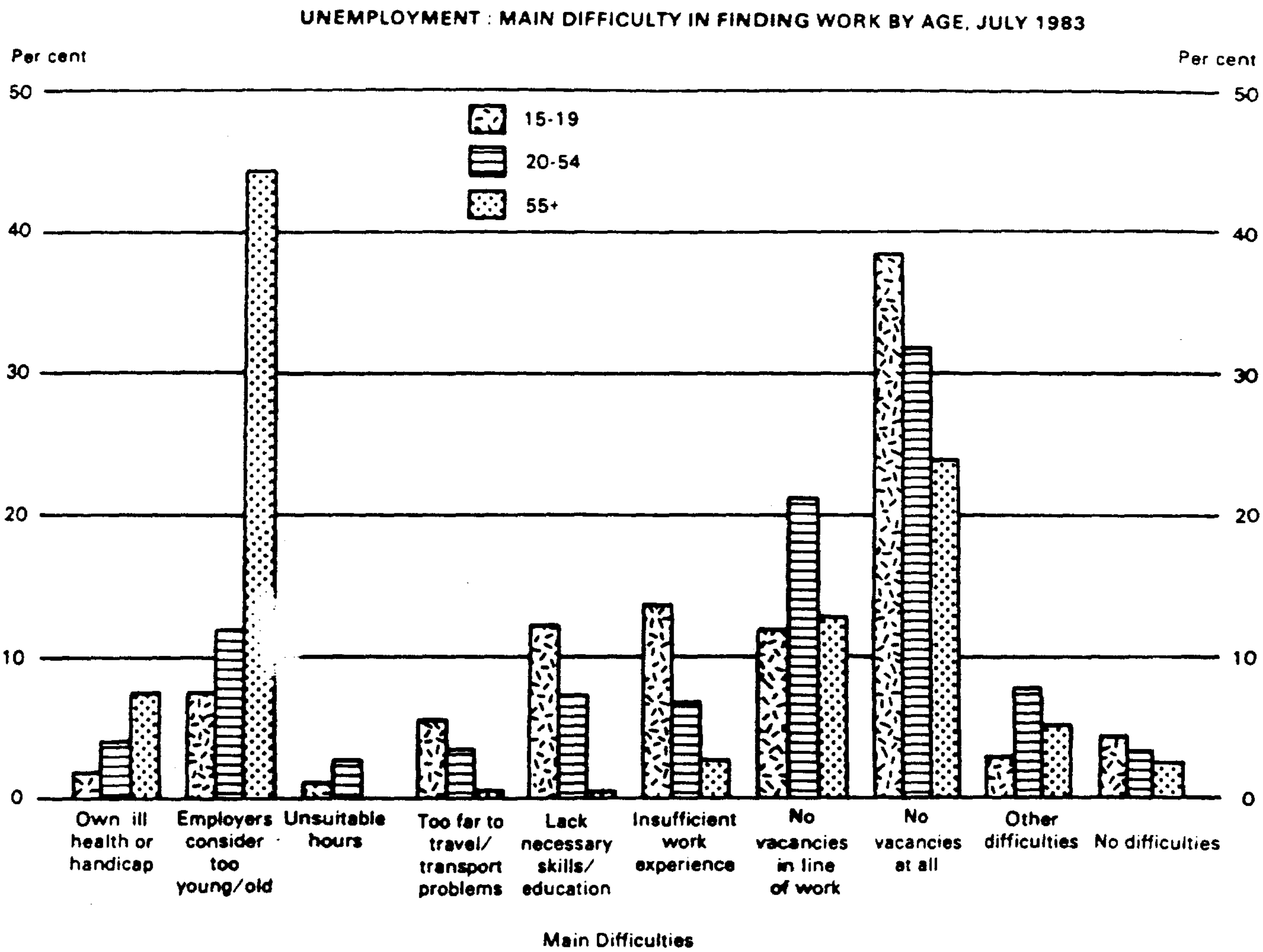
Source: Australian Bureau of Statistics, Social Indicators No 4.

among this age group is so much longer than for other ages we should expect it to produce a disproportionate number of discouraged workers, that is, those who have been unemployed, who have searched for work and then given up altogether.

(ii) **Causes of job losses:** The Australian Bureau of Statistics has begun conducting surveys into patterns and motives for retirement and early retirement in the 1980s. These surveys have to be read carefully, especiallty when it comes to self-reporting of retirement motives. Older workers who accept early retirement offers may tell the ABS interviewer that they left to retire when, in fact, it was the lack of work that was the cause of their loss of employment. Nonetheless, the figures from these surveys are still instructive. In 1984, 19,200 males aged 55 and over said they left their last job because either the business closed or they were laid off. This represented 20.5 per cent of all men in that age group who left jobs in the twelve months ending February 1984. By comparison, some 39,700 men or 42.4 per cent of the total said they retired and 8900 or 9.5 per cent left for health reasons. [16] This figure of 20.5 per cent leaving jobs on an involuntary basis compares to an official unemployment rate at the time for this age group of 6.4 per cent. [17] These figures are not, of course, strictly comparable because a proportion of those who left a job will get another one. But when combined with the above figures for the average duration of a job search for unemployed men of this age, indicating how sluggish is the labour market for older men, they lend weight to hidden unemployment being in the upper rather than the lower levels of the previously discussed range of estimates.

(iii) **Older men's perceptions of their employability:** Another factor influencing the decision of older people to drop out of the labour force is their perception of their chances of re-employment if they become unemployed. This perception will come from their knowledge of the industry, the occupation and local conditions, from the experience of friends and from direct personal experience. One of the

Figure 6:



Source: Australian Bureau of Statistics, Labour Statistics 1984.

factors that will weigh heavily is the difficulty experienced by other older people in being re-employed. Here, there is one telling piece of evidence from a recent ABS survey. Of all the factors that create difficulties in finding work, age discrimination against older workers is the strongest, surpassing even that of the lack of jobs, as Figure 6 demonstrates. Older people who perceive they have little chance of finding work again because of their age are likely to leave the labour force for this reason.

Put together, these three factors give strong grounds for believing that many of the early retirees of the past decade have become so involuntarily. We should not deduce that people who leave work to take up war service, invalid or aged pensions have been attracted out by the availability of these welfare payments. Rather, large numbers of them appear to have been forced out by deteriorating labour market conditions. Welfare payments for this age group appear more like substitutes for one another than anything else. That is, the war service pension and the invalid pension are more acceptable, less stigmatised welfare payments than the unemployment benefit for people aged 55-64 and this is why the take-up rates of the former two are mugh higher than the dole. In this sense, the criteria of eligibility for these two acceptable pensions, which virtually amount to permanent retirement, have persuaded many discouraged workers to become permanent retirees.

Implications for policy

From this last perspective, those who regard the promotion of early retirement as socially-desirable because it helps reduce unemployment rates among younger workers will need to look to the future. The hump in the numbers of World War II veterans eligible for the war service pension is now with us and will soon start to decline. A new form of pension will be needed to take up the large numbers now accommodated by the service pension. Also, there should be a much tidier way of pensioning off large numbers of early retirees than through the liberal interpretations and fudged guidelines that currently operate with the invalid pension. There also appears to be considerable scope for improving the present arrangements through the extension of superannuation schemes to much wider sections of the workforce.

However, I have some doubts about the basic assumption of this proposition, that is, that there is a direct substitution of younger for older workers. This is a matter that needs much more research. To date we have had one analysis of the industry and occupation structure of older workers in Australia. This was done by Hazel Moir of the Bureau of Labour Market Research and is based on census figures up to 1976 and labour market surveys up to 1980. She found that structural change within industry between 1966 and 1980 had only a marginal effect on the decline in older workers' participation rates, accounting only for a loss of about 10,000 positions by 1980. [18] I am currently examinging this question with more recent data and I am particularly interested in the impact of the mass retrenchments within manufacturing industry in the new recession of 1982-83.

If it turns out that there is not a direct substitution of jobs between older and younger workers then we should take a different perspective on the provision of pensions and benefits. The current arrangements that encourage permanent severance from the labour force should be reviewed to allow much greater flexibility. We would also need to review policies to protect older workers from dismissal and to assist older unemployed workers to re-enter the labour force. There would also need to be a reconsideration of existing labour market programs, none of which to date have had any significant participation by older workers at all.

Overall, it would appear that we need to improve income security policies both for those who have left the labour force and have little chance of returning, and for those who want to return to work and who do not want to be cajoled into early retirement because of a temporary need for income support. The numbers of both groups can only be expected to increase in the future. The issue will become the more pressing the longer we leave it.

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1. I wish to thank Penelope Mahy for assistance in preparing this working paper which is part of a larger project for the Social Welfare Research Centre, University of New South Wales.

2. 'Labour force participants' include those engaged in both full-time and part-time work and those defined as unemployed by the Australian Bureau of Statistics.

3. Australian Bureau of Statistics, **The Labour Force : Australia**, August 1985, 6203.0, Table 11.

4. P. Stricker and P. Sheehan, **Hidden Unemployment: The Australian Experience**, Institute of Applied Economic and Social Research, University of Melbourne, 1981, pp 118-33.

5. Ibid, p 105.

6. W.J. Merrilees, 'The mass exodus of older males from the labour force: An exploratory analysis', **Australian Bulletin of Labour**, 8 (2), pp 81-94.

7. Ibid, pp 84-5.

8. Ibid, p. 87.

9. Ibid, p.88.

10. Ibid p. 93

11. Bureau of Labour Market Research, **Retired, Unemployed or At Risk: Changes in the Australian Labour Market for Older Workers**, BLMR Research Report No. 4, AGPS, Canberra, 1983.

12. Ibid p.87.

13. Ibid p.88.

14. For an introduction to the literature see Jill Roe (ed.) **Social Policy in Australia : Some Perspectives 1901-1975**, Cassell, Sydney, 1976.

15. K. Windschuttle, **Unemployment**, Penguin, Ringwood, 1979, Chapter 8.

16. Australian Bureau of Statistics, **Labour Statistics: Australia 1984**, 6101.0, Table 3.13.

17. August 1983 figure.

18. Hazel Moir, 'Age Structure of Industries and the position of older men in the labour market', **Australian Bulletin of Labour**, 8 (3) pp 157-75.

SOCIAL POLICY:
ARE THERE ALTERNATIVES TO THE WELFARE STATE?

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Introduction

In most discussions and research on social policy and social welfare the focus of attention tends to be given to the analysis of current issues and problems, and to suggestions for possible remedies. The importance of these endeavours cannot be discounted, for to arrive at solutions to the problems the nature of the problems calls for rigorous analysis.

At the same time, in order to arrive at a better understanding of the encountered problems there is a need to address some of the wider issues of the welfare state, and to consider whether our perceptions of the problems we seek to solve and the theories and concepts we use in the analysis need some re-assessment. This task is particularly important now when not only the social policies of governments are questioned but the very concept of the welfare state comes under challenge.

The earlier papers presented at this seminar have addressed specific areas of current concern in social welfare policy. It seemed appropriate, therefore, to address in this paper some more theoretical issues of social policy and the welfare state, so that the specific issues raised earlier can be seen in a wider perspective.

There are two other reasons for raising the question 'are there alternatives to the welfare state?' at this seminar. First, it is clear that this question is very much in the forefront of public debate on social and economic policy. Alternatives to the welfare state are not only considered but actively advocated. The critics of the welfare state come from what is now called the New Right, or the Conservative Right, and the alternatives advocated from these quarters come under a range of labels, such as 'privatisation', 'de-regulation', 'self-reliance', or 'self-help', or 'freedom of choice'. However, there are also criticisms levelled at the welfare state from 'concerned' people who are considered to be on the Left, who argue that social policies of successive governments have failed to alleviate poverty, unemployment, and have done little to lessen the inequalities in the society.

Thus, the Welfare State is under attack from some quarters and subject of concern from others. In this situation it seems appropriate to consider what is meant by the welfare state, what function does the welfare state perform, whom does it benefit, and who pays the cost. This paper examines some of these questions, and then considers the grounds on which the alternatives are proposed as well as the merit of these proposals.

Sources of Criticism

Criticisms of the welfare state have been raised in most countries of the industrialised Western world, from most sections of societies and from all parts of the political spectrum. The grounds for criticism have also varied widely. The cost of the welfare state is seen to have grown beyond the capacity of economies to pay; the protection of the welfare state has become a disincentive to initiative and personal effort; the welfare state encourages laziness and irresponsibility; it benefits more the relatively well-off rather than the poor and the disadvantaged; it has become a huge bureaucratic apparatus benefiting the administrators and professional service providers; and instead of alleviating the inequalities generated in the capitalist market, it maintains these inequalities or even exacerbates and reinforces the inequalities.

Much of the criticism can be dismissed as the traditional opposition of vested interests of the well-off sections of the community which are determined to safeguard and enhance their privileged positions; or simply as the 'ravings of the reactionary Right'. However, not all criticism is of that nature, and some of it stems from genuine concern about the lack of progress towards a fairer society or about meagre results achieved towards that end, despite the rising cost of resources allocated to welfare services and social security. Some criticisms are also substantiated by evidence which is not easy to refute. Thus, if there ever was a 'commitment to welfare', that commitment has certainly waned. As observed by Davies and Piachaud, commenting on the British scene,

> There is no longer a consensus among the electorate that a better health service, higher social security payments and improved education are necessarily worth paying for. Nor is it felt that our social services are operated efficiently, with maximum concern for all the needs of the sick, the unemployed and the disadvantaged. (1983:40)

Such a situation is not confined to Britain but has also emerged in those countries which for many years had been regarded as models of the welfare state that other countries could follow. For example, at a recent meeting of social policy analysts held in Frankfurt and organised by the European Centre for Social Welfare Training and Research, expressions of concern were reported from most European states. Among the reports presented, it was said that

> Sweden has long been admired by many other countries for the extent of its public social services but ... the problems are now so serious that it does not seem possible to preserve the goals

> of their welfare state without seriously re-thinking the means that are used to achieve these goals. It was clear from discussion at Frankfurt that other countries have reached similar conclusions.
> (**Eurosocial**, 1985, No.25:7)

Similarly, Denmark which also had been a model of a welfare state has for some time now engaged in

> ... following the conservative policy of a number of Western European countries. There, government ministers have declared that established services cannot increase but instead private initiatives have to be encouraged to enable them to supplement public social services.
> (**Eurosocial**, 1985, No.25:9)

The criticisms which come from the Right are to be expected. As outlined by Claus Offe (1984), these criticisms come from an 'intellectually and politically powerful renaissance of neo-**laissez-faire** and monetarist doctrines. These doctrines amount to a fundamental critique of the welfare state ...' In essence the criticisms are based on the argument that

> the welfare state apparatus imposes a burden of taxation and regulation upon capital which amounts to a **disincentive to investment**. Second, at the same time, the welfare state grants claims, entitlements and collective power positions to workers and unions which amount to a **disincentive to work** ... Taken together, these two effects lead into a dynamic of declining growth and increased expectations of economic 'demand overload' (known as inflation) as well as political demand overload ('ungovernability'), which can be satisfied less and less by the available output.
> (1984:149)

This argument has been succinctly summed up by Gough Whitlam in his most recent book. Referring to the current debate in Australia on tax reform, Whitlam observes that the argument has taken 'an extraordinarily self-serving form: the rich will not work harder because they are not rich enough and the poor will not work harder because they are not poor enough' (1985:743).

Ross Gittins in one of his articles (**The Sydney Morning Herald**) also comments on the criticisms of the tax reform based on the grounds that it is a 'vicious, anti-business package of disincentives to investment, development and growth' by saying,

> As for the claim that the capital gains tax (or the fringe benefits tax, or any other nasty in the package) is a 'tax on success and enterprise' it's laughable. Of course it's a tax on success and enterprise. Every tax is. What else is there to tax?
> (**Sydney Morning Herald**, 25.9.85)

It is for these reasons that many arguments against public expenditure which come from the business sector and its press commentators cannot be taken seriously, although they can be very persuasive in their over-simplification.

In Australia, criticisms of welfare expenditures have been frequently expressed in the daily press. For example, **The Australian Financial Review** has from time to time used its editorials to criticise the rising welfare expenditure of the Commonwealth Government and especially the claims and demands of social groups and organisations to which the **Review** refers as the 'welfare lobby'. In 1980, in the editorial entitled 'The Welfare Monster', the **Review** commented that the Fraser Government was 'much more generous' than was commonly believed, and the then Minister for Social Security, Senator Margaret Guilfoyle, was 'one of the softer touches in the welfare portfolio. She really was a velvet fist concealed beneath a glove that only looked like iron'. On the welfare lobby, the editorial commented,

> The welfare lobby is always a powerful one, being motivated by a sense of righteousness and perceived responsibility on the part of Government.
> (**AFR**, 12.12.80)

The **Review** comments in more recent times have been increasingly critical of the welfare lobby. In August 1984, after the Budget, the editorial entitled 'The Welfare Lobby' said,

> The response of the various welfare organisations to the Federal Budget has been yet another manifestation of the moral and intellectual bankruptcy of the welfare movement in Australia ...
> The real problem of the welfare movement is that it has come increasingly to perceive itself as some kind of lobby group which has as its major function the harassment of governments, regardless of any realities of political and economic constraints. Moreover, even though they are funded largely by government these days, they see their role as being essentially anti-government: no government can do enough for them or for those they purport to represent ...
> Whether the welfare groups do in any real sense represent the poor or the disadvantaged is in itself a very dubious proposition ... This very fact means that the welfare groups should be regarded with certain scepticism. To a very large extent they represent themselves, namely a group of middle-class activists who are committed for various reasons to the welfare system in one form or another.
> (**AFR**, 18.8.84)

The **Financial Review** has been consistent on this issue, in claiming that the welfare groups are self-interest pressure groups which purport to represent the interests of the disadvantaged in order to advance their own self-interest. More recently, the **Review** commented again, under the title of 'Caring Society',

> ... in recent years there has been an increasingly disturbing accumulation of evidence suggesting that the whole field of community welfare has attracted the attention of people less interested in the tradition of service than in the personal benefits - political, career or monetary - which may be obtained by manipulating the processes of government funding ...
> In the community funding area, two phrases to be wary of are 'community-based' and 'caring society'.
> (**AFR**, 17.7.85)

The **Financial Review**, being primarily a voice of the business community can be expected to be biased. However, its criticisms cannot be too easily discounted because they probably contain a grain of truth, perhaps even a few grains. The representatives of welfare organisations can be expected to be biased. Furthermore, like any other pressure group, they are expected to advance their own self-interest which, incidentally, may, or may not, be compatible with the interests of the people whom the welfare organisations claim to represent. I will come to this issue later.

Criticisms from the press which conveys to the public the interests and views of business community can be accepted only with scepticism. However, it is more difficult to dismiss the criticisms from the 'concerned' quarters; from people who observe that the increase in expenditure on social security and welfare has achieved little to lessen the inequalities in society. Commenting on the British scene, Pond and Popay observe,

> The social services, the tax system and the social security system have not resulted in a major redistribution of resources from the richer to the poorer members of society. Instead they have tended to reflect the social and economic inequalities of the society on which they were superimposed.
> (1983:103)

Similar conclusions have been reached by Le Grand (1982), George and Wilding (1984), and others. Most analysts of social policy in the Western world tend to agree that, while some progress towards eliminating or lessening the extremes of poverty have been achieved, social policies of the Western countries' governments have essentially retained a remedial character, leaving the inequalities in their economic and social systems relatively undisturbed. It is appropriate therefore to consider some of the reasons why the achievements of the welfare state have been as disappointing as they are perceived to be. Or is it perhaps necesssary to re-examine not only the welfare state's achievements but also the way those achievements are perceived?

The Welfare State and Its Functions

At this point, I want to reiterate the argument which I have stated on numerous occasions previously (eg. Jamrozik 1983a, 1983b, 1983c, 1984a, 1984b), namely, that one of the serious shortcomings in the analysis of social policy and social welfare has been a narrow and 'truncated' conceptual framework employed in much of research and writing on this subject. The focus has been on 'the poor' or 'the disadvantaged', that is, on the visible aspects of social welfare, and almost a complete absence of comparative analysis which would enable the identification of other beneficiaries who, in common perceptions, are not regarded, and do not regard themselves, to be welfare beneficiaries. As a result, the welfare state is portrayed as a monster swallowing greater and greater share of the Gross Domestic Product, but its positive contribution to economic growth and well-being of many well-off people is ignored. It is this truncated perspective that not only serves to conceal many beneficiaries of the welfare state but also renders the whole concept of the welfare state vulnerable to attack.

In contrast to these approaches, prevalent in the 'applied' research in social policy and social welfare, there is a recognition in some theoretical studies of the necessity to perceive and examine the welfare state and social policy in a wide framework rather than concentrate on 'the social services'. For example, Claus Offe sees the welfare state as

> ... a multi-functional and heterogeneous set of political and administrative institutions whose purpose is to manage the structures of socialisation and the capitalist economy. Offe rejects the narrow and conventional understanding of the welfare state as the provider of social services.
> (1984:13; Keane, Introduction)

Similarly, Peter Townsend also criticises the narrow perspectives on social policy which concentrate attention and analysis on state expenditure on 'the social services' and neglect to examine the wider functions of the welfare state and their effects. Townsend says,

> The meaning of social policy in the richer capitalist and some of the Eastern European states of the First World, as ordinarily understood, has been unnecessarily delimited, partly in accordance with the interests of the market, but also in accordance with narrow theoretical interpretations by social scientists, politicians and administrators of the role of the state. This has led to an exaggeration of, for example, the redistributive functions of welfare services in these countries, and lately has blinded people to some of the structural developments in favour of greater inequality ...
> In much of Scandinavia and Central Europe the teaching of social policy gives far more emphasis than in Britain and the United

States to employment and yet even there pays too little heed to the initial allocation and distribution of both income and wealth and the relationships between the private and public sectors of the economy.
(1985:25)

In the same vein, Wolfgang Grichting defines social policy as

> ... the set of processes and mechanisms whereby social systems prevent, postpone, introduce and manage structural change. Structural change is taken to mean any pervasive modification of the pattern of relationships among social positions.
> (1984:xviii)

Grichting is extremely critical of the narrow views of social policy which limit definitions to welfare policies. This, he argues,

> ... is extremely unfortunate and totally unacceptable. It is unfortunate in as much as it **deprives the study of social policy of the broader context of social justice and societal interaction.** By restricting social policy to welfare administration one perpetuates the practice of excluding subsidies to the middle class and the rich from discussions of the social welfare system.
> (1984:4-5)

He points to such important areas as, for example, free tertiary education which has benefited mainly the middle classes and the really well-off sections of society. The identification of the social groups which benefit from social policy decisions is important because, Grichting says, 'economic classes, social status and communal power groups are the major dimensions along which social inequality is defined' (1984:162). The inclusion of these three dimensions enables one to identify the market relationships, patterns of consumption and life style, and commitments to latent and manifest 'third parties'.

Martin Rein goes even further in his conceptual perception of the contemporary welfare state. He argues that

> Discussions of the welfare functions of the state mistake the nature of modern industrial societies. These discussions imply a distinction between the 'public' and the 'private', between the 'social' and the 'economic', and between an 'original distribution' of incomes and the post-transfer distribution produced by government welfare policy. None of these distinctions fits reality.
> (1983:3)

In Rein's view, a study of the welfare state or of social policy which is based on such 'artificial' assumptions and classifications cannot arrive at any valid conclusions because the narrow conceptual framework

> ... fails to take into account the substantial role of government as an employer, the role of government as a consumer of private products, or the role of government in mandating, stimulating, supporting, and regulating private enterprise.
> (1983:3)

Rein thus questions the validity of clear distinctions between economic policy and social policy, or between economic market and social market, or between the public and private sector. While such an approach to social policy analysis may be questioned as too 'overreaching', the close relationship between economic and social policy is now well recognised and accepted (eg. OECD, 1981). The acceptance of that relationship leads to the perspective on the welfare state which allows for the distinction to be made between the role of the state in the primary allocation of resources in the economy and the secondary allocation, usually referred to as 'redistribution'.

In the views of some 'concerned' critics, the welfare state achieves little effect in alleviating the inequalities generated in the capitalist market economy because it does not eliminate the causes of inequality. At best, it merely **compensates** for some of these causes, as social policy measures are **post facto** measures (Offe, 1984:154). As Peter Townsend explains,

> The tax and welfare benefits systems are designed to modify the inequalities of the market in accordance with Keynesian and not just neo-classical principles of economic management instead of other schemes being introduced from the start to equalise the allocation of incomes. It is like shoring up a building badly erected in the first place in order to protect the passer-by.
> (1985-28)

On the same grounds, Miller argues that 'those concerned about social programs must also be concerned about economic policy. Social policy cannot undo what economic policy harms' (1985:62). Miller continues,

> ... economic policy is about children and families as much, if not more so, than social policy. The citadel of economic policy itself must be breached if greater equality is to be achieved ... asking too much of social policy produces disillusionment ... Unfortunately, economic policy has been reduced to a discussion of rates of economic growth and inflation ... An act of production is an act of distribution, affecting who will be employed, the kinds of jobs that will emerge, the return to capital relative to labour, and the distribution of income and wealth ...
> Welfare state adherents have to address the issues of macroeconomic policy and economic structure so that the original distribution of income is less unequal, reducing the task of confronting the welfare state.
> (1985:63)

If the above comments are valid, it is thus appropriate to ask: what have been the achievements of the welfare state and what have been its failures? The answers to this question would undoubtedly differ widely according to people's perceptions, ideologies and self-interests as well. However, the analysts who have attempted to examine this question in a scholarly manner tend to agree that the social policies of the Western industrialised countries have been successful in eliminating or alleviating the extremes of poverty but have had little effect in lessening the inequalities in these societies.

In Britain, the studies by Room (1979), Le Grand (1982), and George and Wilding (1984) all point to the fact that while the poor sections of society might have benefited from social security and social assistance, the main beneficiaries of the welfare state have been the middle classes and the rich. This view is also shared by Gould (1981) and Gilbert (1983), the latter drawing his conclusions mainly from the American scene. In Denmark, Andersen (1983) has reached similar conclusions, emphasising that it was the 'expansion of collective consumption of services, not of cash benefits, which has now made the crisis of the welfare state a structural one'. George and Wilding have concluded that the inequalities in the area of the social services have remained fairly constant over the years, in that 'the higher socio-economic groups have easier access to services than the lower socio-economic groups; and they often have access to better services'. With regard to the overall effect of social policy they emphasise that 'it is clear that the welfare state does not redistribute income and resources from the rich to the poor' (1984:253).

These findings seem to support the arguments of the other writers, such as Offe, Miller and Townsend, that in order for the welfare state to alleviate the inequalities of the market economy the social policies of governments would need to tackle the problem at its source, that is at the level of primary allocation of resources.

All these comments, observations and arguments quoted above suggest that in order to understand the functioning of the economies of modern industrialised societies and the role of the state in these economies, the theories of the welfare state on which studies of social policy are frequently based need a thorough reappraisal. Indeed, some analysts argue that the need for such reappraisal is of utmost importance now when the welfare state is under an increasing challenge. Thus, among recent contributions to the debate on this issue, Blume has argued that

> ... establishing the structural framework within which the social sciences can best contribute to the policy process must be a priority in current thinking about social policy. (1984:281)

Blume identifies two models, or two approaches, that are commonly used in studies of social policy: an 'engineering' model; and an 'enlightenment' model. The former is typically accepted by policy-makers as a preferable approach because it 'implies that social research is carried out in order to provide information about a social problem which is lacking, and which is needed to assist policy-makers in reaching a decision'. The factual knowledge can then be used directly in the policy process. The 'enlightenment' model is, by and large, favoured by social scientists because it is based on the argument that 'significant contribution of the social sciences is rather in the gradual process of re-conceptualisation of social problems which is engendered. Problems gradually come to be redefined, understood in different ways' (1984:281).

Of the two approaches, Blume argues, the second (enlightenment) might be more fruitful and of more value to policy-makers, although the value of any findings or theoretical interpretations of the issues investigated might not be immediately evident or of direct relevance and application to a specific problem of the day. Policy-makers prefer concrete and factual data of direct relevance rather than theoretical explanations or hypothetical conclusions. Yet, the practical importance of theoretical understanding of policy issues is emphasised by many social scientists involved in social policy analysis. Among them is Peter Townsend who supports this view by saying,

> The fundamental problem of any stage of history is to explain the nature and outcome of social policies designed to maintain or change social structure. The task of explanation is central to the choice of appropriate policies. If we cannot explain the relevance of past policies to social development we are poorly equipped to devise or recommend new policies. As someone who has had the good fortune to witness some parts of the policy-making of political parties, pressure groups and governments in Britain at first hand, I have been increasingly aware of the necessity of good theory, and well-documented theory, in any approach to new social policies. It is not some remote academic exercise, but vital to the practice of enlightened government. (1985:24-25)

Similarly, Rein also stresses the importance of theory in social research because, he says, 'there are no facts independent of the theory that organises them. Hence to talk about research one must also, even if only implicitly, presume a theoretical concept that organises the study' (1983:236). Rein further adds a rather cautious note,

> The idea that theory precedes and should influence action assigns a privileged role to socially defined groups and, in this sense, reflects class interest: ideas are considered the 'stock in trade' of various occupational groups, including both academics and policy-makers.
> (1983:236-237)

These views of some well-known analysts of social policy seem to confirm the view which I expressed in an earlier contribution to the analysis of social policy (Jamrozik, 1983a). In that contribution I substantiated the argument for the necessity of a broader conceptual framework on both theoretical and practical grounds by asserting,

> One cannot formulate a 'good' social theory by studying only one aspect of social activity or one segment of population. Neither can one formulate an equitable social policy if one considers only one aspect of public expenditure as 'welfare' while ignoring others which, although performing the same function, are not regarded as welfare expenditures because they are referred to by other names.
> (1983a:186)

It is beyond the scope of this paper to expound a 'theory' of the welfare state. Of relevance to this discussion it is sufficient to point out that an essential part of the analysis of social policy is the recognition of the two important functions the welfare state performs: the maintaining function which entails the care of the human residue of the market economy, with varied degrees of social control; and the enabling function which enhances people's life chances in the market economy. Such an approach to the study of social policy can be validated on many grounds.

First, by identifying the two functions, and especially the second, we can also identify those functions performed by the state without which the economic apparatus of the capitalist market would falter or even collapse (as it did during the Great Depression). Furthermore, we can identify the beneficiaries of the welfare state who do not consider themselves to be, and are not readily perceived, as such. It would then be found that some of the most ardent and vehement critics of the welfare state are also its greatest beneficiaries. These beneficiaries need to be made 'visible'.

Second, it would enable us to see and demonstrate how various forms of the cost of production in the private sector are passed on to the public sector either directly or indirectly through tax concessions. Some of these are accepted on the grounds that they are incurred in the public interest, such as the cost of providing sporting activities, which also serve to advertise the promoter's product. Others are justified as legitimate business expenditures although they are really the means of engaging in private consumption.

For example, back in 1981, we estimated that the cost of revenue forgone by the Commonwealth Government through non-wage employment benefits amounted to approximately $5,000 million per annum (Jamrozik, Hoey and Leeds, 1981). While at the time this conclusion was received with scepticism in some quarters, it seems we had grossly underestimated that amount. If the current outcry against the tightening of the 'fringe benefits' concessions is any indication, it would seem that most of the country's business activities take place in restaurants, clubs, yachting excursions, and holiday places. One is entitled to wonder what work is actually being done in boardrooms and offices. If the pronouncements and advertisements are to be believed, restrictions on the allowances for 'fringe benefits' will result in mass unemployment and will spell the demise of restaurant trade, hotels, tourism, the motor vehicle industry, and a host of others.

Who Are the Beneficiaries of the Welfare State?

When speaking about the beneficiaries of the welfare state, the people who immediately come to mind are those receiving pensions and benefits. It is true that at present there are over 2½ million persons receiving pensions and benefits, or close to a quarter of the population of 16 years or over. The numbers of pensioners and beneficiaries has almost doubled over the past 10 years (87% increase from 1974 to 1984) while the population 16 years or over increased over the same period by only 17 per cent (Table 1). This increase is viewed with concern as a 'burden' on the economy, but it can equally be regarded as a failure of the economy to provide the means of livelihood for many people, especially as the greatest increase over the past 10 years has been in the numbers of persons receiving unemployment benefits. In 1974, recipients of unemployment benefits accounted for 2.2 per cent of all pensioners and beneficiaries; in 1984, they accounted for 21.9 per cent (as at 30 June). Their numbers increased over that period 18.26 times.

Translated into expenditure, Commonwealth outlays on social security and welfare increased over the same period from 20.3 per cent of total budget

Table 1 : Recipients of Pensions and Benefits, Australia: 1974-1984

(as at 30 June)

Category of Pensioner/ Beneficiary	1974 N	1974 %	1984 N	1984 %	Increase Ratio 1974 - 1984
Pensioners/Beneficiaries with Dependent Children					
Class A Widows' Pension	64,084	4.5	81,176	3.0	1.27
Supporting Parent Benefit	26,286	1.8	153,589	5.7	5.84
	90,370	6.3	234,765	8.8	2.60
Pensioners/Beneficiaries who may, or may not, have Dependent Children					
Unemployment Benefits	32,009	2.2	584,506	21.9	18.26
Sickness Benefits	22,036	1.5	62,400	2.3	2.83
Special Benefits	5,244	0.4	18,293	0.7	3.49
Invalid Pensions	182,640	12.7	307,847 (1)	11.5	1.69
	241,929	16.9	973,046	36.4	4.02
Age Pensions	1,049,124	73.2	1,382,690 (1)	51.7	1.32
Class B Widows' Pension	51,137	3.6	81,755	3.1	1.60
Class C Widows' Pension	89	0.0	114	0.0	1.28
	1,100,350	76.8	1,464,559	54.8	1.33
All Pensions/Benefits	1,432,649	(100.0)	2,672,370	(100.0)	1.87
Estimated Population ('000)	13,722.6		15,543.6		1.13
Pensioners/Beneficiaries as %		10.4		17.2	
Est. Population 16 years + ('000)	9,644.6		11,267.7		1.17
Pensioners/Beneficiaries as %		14.9		23.7	

Source: Department of Social Security
(a) Annual Report 1983-1984
(b) Ten Year Statistical Survey 1974 to 1984

(1) includes wives' pensions

Table 2 : Commonwealth Budget Outlays on Social Expenditure and Social Security : 1973-74; 1976-77; and 1983-84

(Current Prices)

Year	1973-74 $M	1973-74 %	1976-77 $M	1976-77 %	1983-84 $M	1983-84 %	Change 1977 1984	Ratio 1974-1984
G.D.P.	51,034		83,176		186,550		2.24	3.66
Total Budget outlay	12,229		24,123		56,570		2.34	4.63
as % of G.D.P.		24.0		29.0		30.5		
Social Expenditure	4,932		12,191		26,689		2.19	5.41
as % of G.D.P.		7.6		14.7		14.4		
as % of Budget		40.3		50.5		47.2		
Social Expenditure	4,943	(100.0)	12,191	(100.0)	26,689	(100.0)	2.19	5.41
Education	858	17.4	2,210	18.1	4,085	15.3	1.84	4.76
Health	947	19.2	2,543	20.9	4,412	16.5	1.73	4.66
Social Security & Welfare	2,487	50.4	6,367	52.2	16,438	61.6	2.58	6.61
Housing	337	6.8	549	4.5	1,034	3.9	1.88	3.07
Urban & Reg.Dev.	144	2.9	265	2.2	108	0.4	0.41	0.75
Culture & Rec.	159	3.2	257	2.1	612	2.3	2.38	3.85
Social Security & Welfare	2,487		6,367		16,438		2.58	6.61
as % of G.D.P.		4.9		7.7		8.8		
as % of Budget		20.3		26.4		29.1		
as % of Social Exp.		50.4		52.2		61.6		
Social Security & Welfare	2,487	(100.0)	6,367	(100.0)	16,438	(100.0)	2.58	6.61
Assistance to:								
the Aged	1,181	47.5	2,562	40.2	5,445	33.1	2.13	4.61
Veterans & Dep.	360	14.5	659	10.4	2,024	12.3	3.07	5.62
Handicapped	242	9.7	581	9.1	1,462	8.9	2.52	6.04
Widows & Single Parents	229	9.2	542	8.5	1,719	10.5	3.17	7.51
Families	237	9.5	1,057	16.6	1,634	9.9	1.55	6.89
Unemployed/Sick	119	4.8	748	11.7	3,341	20.3	4.47	28.08
Other (incl.Admin)	118	4.7	218	3.4	813	4.9	3.73	6.89

Source: Commonwealth Government Budget Papers 1984-85 (Paper No.1).

outlays to 29.1 per cent, a rise of 8.8 percentage points. As a percentage of the GDP, the rise was from 4.9 per cent to 8.8 per cent, or 3.9 percentage points (Table 2). Over the same period, total Commonwealth outlays on social expenditure (education, health, social security and welfare, housing, urban and regional development, and culture and recreation) increased from 40.3 per cent to 47.2 per cent, as a percentage of budget outlays (6.9 percentage points) and from 7.6 per cent to 14.4 per cent, as a percentage of the GDP (6.8 percentage points). Total budget outlays, as a percentage of the GDP, increased from 24.0 per cent to 30.5 per cent (6.5 percentage points).

However, most of these increases took place between 1973-1974 and 1976-1977. Since then, the only increases occurred in the outlays on social security and welfare: as a percentage of budget outlays, from 26.4 per cent to 29.1 per cent (2.7 percentage points); and as a percentage of the GDP, from 7.7 per cent to 8.8 per cent (1.1 percentage points). Total social expenditure over that period actually fell by 3.3 percentage points as a percentage of budget outlays (from 50.5% to 47.2%); and by a fraction of the GDP (0.3 percentage points, from 14.7% to 14.4%). Total budget outlays increased over that period by 1.5 percentage points as a percentage of the GDP, from 29.0 per cent to 30.5 per cent. Thus, since 1976-1977, Commonwealth expenditure has not registered any significant increases in relation to the GDP, except for an increase in social security and welfare, and most of this has been due to the increase in the numbers of the recipients of unemployment benefits (there were fluctuations from year to year over that period).

It may be assumed that the majority, or most, of the recipients of pensions and benefits would be individuals and families who are either poor or at the lower end of the income scale. Certainly, the data from the ABS Household Expenditure Survey 1984 (ABS, 1985, 6534.0) indicate that for the 30 per cent of household at the lower end of the income scale pensions or benefits contributed the main source of income.

These, then, are the visible beneficiaries of the welfare state. However, if social expenditure as a whole is considered (excluding expenditure on social security and welfare), then the beneficiaries are no longer clearly identified, but from the studies carried out in this area (eg. Harding, 1984) it is evident that the recipients (or consumers) of this expenditure come from all socio-economic strata. In education, they come mainly from the middle-and-upper income groups. Thus, the more enabling the function of state expenditure the more it tends to benefit the relatively advantaged sections of the population.

The enabling functions of the welfare state are widespread and far-reaching. Education is a case in point as it benefits not only those who are students but also the employers of the qualified labour force. It is easily forgotten that over the years the cost of producing and re-producing the labour force with qualifications and knowledge required by business and industry has been entirely transferred to the public sector.

However, the state is itself the largest employer in the economy, and most jobs in the public sector are white-collar, professional, technical and sub-professional jobs, generally well paid, and with job security and in-built career structure. Total employment in the public sector now accounts for close to 30 per cent of all employment. According to the ABS data, two sectors - public administration and defence, and community services (health, education and welfare) - account for 22 per cent of all employment (men = 15%; women = 33%) (ABS, 1985, 6235.0). But the numbers alone do not tell the full story. These two sectors account for 54 per cent of all employed persons with tertiary degrees or equivalent qualifications (men = 46%; women = 69%). Community services sector alone accounts for 45% of employed degree holders (men 36%; women 62%). Employment in that sector has recorded the fastest growth of all sectors of industry; between 1966 and 1984, employment in community services increased by 134 per cent, or a rate of growth nearly four times (3.95) than total employment (34%), and accounted substantially for the growth of professional and technical occupations (115% in total, or 3.38 times the rate of total employment).

As for assistance to business and industry, it needs to be noted that the item 'economic services' in the Commonwealth budget for 1983-84 amounted to $4,095 million, or 7.2 per cent total budget outlays. Of this, industry assistance and development accounted for $1,193 million. This amount does not include assistance to business and industry provided by the States.

Opposition to public expenditure thus often comes from the people who themselves do not mind being the beneficiaries of such expenditure. As Offe observes,

> it is a well-known fact from political opinion research that the fiercest advocates of **laissez-faire** capitalism and economic individualism show marked differences between their **general** ideological outlook and their willingness to have **special** transfers, subsidies, and social security schemes abandoned from which they **personally** derive benefits.
> (1984:152)

Relevant to this issue is a statement by an American Congressman, Ronald Dellums, who is reported to have learned to understand the difference between welfare and subsidy. 'Subsidy (he says) is a large cheque that goes to a smaller number of people' (Pilisuk and Minkler, 1985:10).

The Search for Alternatives

Those who advocate the return to unregulated market forces in most areas of economic and social production seem to have forgotten that state intervention came into being largely because of a demonstrable failure of the free capitalist system to ensure the means of survival for the population in the industrialised countries and failure to regulate itself. While the demand for more government regulation and higher public expenditure might be regarded as socially and economically irresponsible, equally irresponsible are some of the proposals currently floated in the media and public speeches.

Some proposals for privatisation of public utilities have more in common with a 'cargo cult' mentality than with a rational analysis of issues. Others do not state explicitly whose interests such proposals, if implemented, would serve and what outcomes they would produce. The proposals are substantiated by arguments that public utilities would work better if they were submitted to market forces, and everyone would benefit. A belief is propagated that if a public utility were run for profit, everyone - from the board of directors to the workforce - would immediately perform more efficiently. As stated recently in relation to Telecom,

> Private ownership would clearly result in new and sharp incentives for directors to perform for the boss - the shareholders of Telecom.
> (Shack, 9.11.85)

Similarly, the calls for deregulation of wages and for de-unionisation of the labour force are promoted as giving 'freedom' to employers and employees to enter into 'voluntary' agreements. There is nothing voluntary in a situation where opportunities for employment are scarce because the powers of the parties to the contract are not equal. Behind the proposals is the desire to 'improve the competitiveness' on the world market by lowering wages closer to the levels of our neighbouring countries. However sound such a reasoning might be, this argument has been used for decades, in times of recession as well as in times of economic boom. Each time the Conciliation and Arbitration Commissions awards wage increases in line with the Consumer Price Index (CPI) a calamity is predicted.

These arguments, however motivated by self-interest and however over-simplified they might be, cannot be ignored, if only because of the appeal they have in their promises of simple solutions. Who would be the winners and the losers if these solutions were adopted is not stated. As Peter Townsend writes on the events in Britain,

> The crudities of the New Right represent a force to be reckoned with. But it is the poor and the underclass and certain minorities in the lower reaches of the labour market who are bearing the brunt of this gradual and systematic restructuring of society. The interests of the middle income groups, for example, subsidised university and sixth form education are strongly represented, as are those of professions who have a stake in the continuation of some form of universal service ... Present developments suggest the emergence of a two tiered welfare state with more emphasis on social control and greater inequality.
> (1985:33)

The situation in Britain is an illustration of the direction in which the policies of dismantling the welfare state might go. Unemployment has now reached well over three million people and there are no signs of improvement. Now, the government has produced a plan (Fowler Green Paper) for a further reduction of social security expenditure and progressive transfer of social assistance to local government and non-government sectors. Bill Jordan comments on the Green Paper,

> The government's overall strategy is to create a dual society. It aims to divide off the sector that depends on the state support from that which does not, and to apply two entirely different standards to the two sectors. For the state sector, it will develop public assistance schemes which minimise costs; for the market sector, it will encourage new initiatives in the private and occupational spheres. As a result, two entirely different structures will develop.
> (1985:409-410)

The Green Paper proposes that a social fund be established, which will be separately staffed and administered and will operate through a counselling approach which 'has marked similarities with that expected of professionals, such as social workers'. Applications for assistance will be assessed according to the claimant's ability to specify personal or medical stresses, relationship problems and inadequacies. Professional remedies will include budgeting advice and referrals to other agencies. In Jordan's assessment of the proposal,

> This part of the plan intensifies the moral surveillance of the poor, which is an integral feature of the public assistance approach. Holding people personally responsible for their poverty, and assisting them according to their deservingness, resurrects the twin spirits of the 19th century Poor Law and the Charity Organisation Society.
> (1985:409-410)

Similarly, in the United States which on all accounts has been experiencing high economic growth, food vouchers, food banks, food kitchens, congregate meals, shelter accommodation, housing vouchers, and rent and mortgage assistance have become part of the welfare scene. These services operate with financial assistance from the federal government but the provision of services is in the hands of the States and non-government agencies (The Urban Institute, 1985).

The search for alternatives to the welfare state does not come only from the conservatives or from the Right, or from the business community. It also comes from progressive forces, from people who, while commited to the ideals of the welfare state, are also concerned at the direction the social policies have taken and at some of the effects they have produced.

Some critics point out to the fact that the welfare state has become an instrument for replicating or even reinforcing the inequalities generated in the market, rather than for alleviating these inequalities. It has also served to accentuate the socio-economic, or class, divisions in society. The problem is seen not in that the poor do not receive income support and access to certain services which enable them to survive in poverty, but in that they are excluded from access to the labour market and to the services which enable them to enhance their social functioning (eg. tertiary education, assistance to home buyers). These services are available in a hierarchical order, that is, to have access to them a person must already be in a position of relative advantage in the socio-economic structure of society (Jamrozik and Stewart, 1985).

Another ground for criticism has been the 'colonisation' of the dependent population by welfare professionals and service providers generally. In this aspect the welfare state is seen to follow the path similar to that of the market, creating dependence rather than strengthening existing family ties and communal social networks. Where welfare services have intervened, it is claimed, normal social contacts and supports have been broken up because those in need 'are forced to speak the language of administration and to accept the definition of their needs by professional helpers' (Grosser, 1983). Social analysts have observed that the falling apart of social networks which performed supportive, protective and controlling functions in people's lives was typical of contemporary industrialised societies, a phenomenon described as the 'falling off of social cement' (Koshiaho et al., 1983). It needs to be noted that this criticism has been levelled at welfare sources from all parts of the political spectrum.

Criticism has been also levelled at the lack of efficiency and cost cont . This is seen as a weakness which provides grounds for the attack on the welfare state by the conservatives. Mishra sees this as

> ... an important problem from the standpoint of the legitimacy of the public sector. For although there is a large element of sheer ideology in the allegations of waste, inefficiency and the misuse of funds in the public services, the absence of any criteria of cost-effectiveness and operational efficiency (analogous to 'profit' in the private sector) makes the public services an easy target for the Right and tends to undermine their legitimacy.
> (1981:171)

Economic recession and diminishing opportunities in the labour market, as well as reluctance among some people to become dependent on the state, have provided a stimulus for seeking other alternative resources. One such resource that has emerged in all industrialised countries of the West (and also in Eastern Europe) is the **informal economy**. In common perceptions, informal economy is regarded with suspicion and concern because it has been used as a means for tax evasion or for making false claims for income support from the state. However, informal economy has many forms, some of which have considerable value in creating and using community resources, such as communal living, barter exchange of home-made products, or exchange of labour. The value in the informal economy is seen in giving the participants relative independence from the state as well as from the formal market.

It is important to recognise the differences in these various pursuits. For example, the notion of 'self-help' has been promoted as, and equated with, greater assistance by the family - the family being seen as the primary source of income maintenance and care. In that perspective, the 'return to the family' becomes a form of privatisation. What is not considered here is the question whether the family today has the resources to carry out such tasks. No doubt, there are families which can do this, but there are also families which cannot. Differences of class and socio-economic stratification are important factors in the ability of the family to provide support for its members, such as young people, for example.

But the concept of self-help can also mean 'return to the community'. It can be seen as a means for enabling people to maintain autonomy and enhance their life style. Self-help can be supported by social policies and appropriate services. As stated recently,

> Self-help is only effective in the context of the welfare state. It often requires public subsidies and institutional arrangements, and is not a substitute for social benefits, services and professional help. Distribution and employment policy play an important role in attaining living conditions which enable people to engage in self-help and in reducing the unequal distribution of self-help competence in different social strata. (**Eurosocial**, 1985, No.15:37)

The concept of self-help can thus be perceived (and applied) as an alternative to the welfare state ('return to the family'), or as a means for progression from 'state welfare' to a welfare society. In the latter perception, according to Riessman, the theory and practice of self-help aims to convert people in need into resources, employment being the critical aspect of that process. In Riessman's words,

> The self-help ethos includes a resistance to things being done **for** the self-help groups (or to **them**) by outside experts, professional, or leaders, and a strong desire for self-governance and independence ...
> Frequently, the competencies they develop at a smaller and more immediate level can be applied to the larger political issues. (1985:3)

The Welfare State in Australia

In the light of the foregoing discussion, it is appropriate to consider how the issues raised in a wider context are reflected in the Australian situation. It is not within the scope of this paper (and I do not regard myself to be competent enough) to analyse the government economic policy. Certain of its aspects, however, have clear implications for social welfare issues to warrant some comments.

The policy of the present Commonwealth Government (and of all State governments as well) appears to be one of supporting a 'free' market economy, with as little interference from the state as possible. It is generally acknowledged that the Government has gone further along that path than its conservative predecessor. At the same time, the Government has expressed a commitment to implement social reforms so as to create a fairer society. Economic growth and a fairer society are the two stated objectives (Treasurer's Budget Speech, 1985). Whether the two objectives can be made compatible with each other remains a debatable proposition. Whatever a 'free' market economy might achieve, a fairer society (if by that is meant a more equitable, let alone a more egalitarian society) is not, and cannot be, one of its products. A 'free' market economy does not appear to be compatible with the philosophy of social democracy (Jamrozik, 1984b).

Some years ago, the policies of Harold Wilson in Britain ran into considerable difficulties because of the activities of what became known as the 'gnomes of Zurich'. The capitalist press at the time claimed that the 'gnomes' were a figment of socialist imagination. However, in discussing the problems of social reform, Mishra (1981) made an interesting observation. He said,

> ... the 'gnomes of Zurich' and other financial authorities ensure that we do not stray too far from a 'healthy' economic policy. In any case, too extensive a development of the public sector or of the social wage is likely to result in the flight of capital and other forms of crises of confidence. In short, it is important to bear in mind that the capitalist economic system is world-wide and that this has considerable implications for social policy of an individual country.
> (1981:112)

How far we have gone on the scale of vulnerability to the international financial system is best demonstrated by the overt assertion that 'the international financial community is again passing judgment on us' (**The Australian**, Editorial, 13.11.85). This is now regarded as the criterion on which to judge the government's performance (Interview with the Leader of the Opposition, **The National**, 19.11.85).

Certainly, after nearly three years of the present government, there is not much evidence of progress towards a fairer society, except for some marginal increments to pensions and benefits in the social security area. The only reform of some substance has been the introduction of **Medicare**, but active opposition to it is still strong in some quarters. The **Prices and Incomes Accord** is still operative but the agreement is rather fragile. The Accord, it needs to be noted, is an agreement for maintaining the status quo, not for change, but even that is under an increasing challenge. The process of introducing the **assets test** was very painful and the result has not been very great, although it did show that there were many more well-off people among the pensioners than it was claimed.

In other fields, changes have been minimal or absent. Public funds are still allocated to the private sector for education and health services. Health services (including Medicare) continue to be a source of exploitation and private profit. On education, Ron Mendelson has recently written 'unequal education is a prime cause of Australian economic inequality, and its inequities are entrenched in the social system ... socially, the division of education into public and private sectors has meant the perpetuation of inequality ... the policy of all governments ensures that economic and social inequality is growing' (1985:7). The evidence of that inequality is irrefutable (Anderson and Vervoorn, 1983; Drury and Jamrozik, 1985). The recently announced decisions on the priorities of access to child care services indicate that what was supposed to be a universal programme for all young children (ALP, 1984:203-205) will now give priority of access to children whose both parents are employed (Minister for Community Services, 6.11.85). Children of unemployed parents will evidently miss out on what is now accepted as an important element in child's development.

The opposition to social reforms aimed at creating a fairer society does not come only from those sections of society which see themselves to be carrying the 'burden' of the welfare state. It also comes from the middle-class sections, especially from the 'new middle-class' which has gained substantial benefits from the welfare state, which now regards these benefits as a right, and wants to ensure that its position of relative advantage is maintained and not curtailed in any way.

It is a political reality that governments of any political persuasion are careful not to alienate the middle ground of the electorate whose voting allegiance is seen to be essential for any party to gain power, or, once there, to stay in power. Thus, for political reasons, social reforms which can benefit the lower socio-economic strata are difficult for governments to achieve because any substantive reform would have some relatively negative effect not only on the rich but also on the middle classes.

It is fairly clear that the problem experienced by the present Commonwealth government is how to reconcile the commitment to improving the lot of the poor and the low-income earners with the political aim of retaining and, if possible, increasing the electoral allegiance of the middle-income earners.

It is doubtful whether these two goals can be achieved, unless the middle-income earners can be convinced that it might be in their interest to 'give in a little' in order to preserve their position of relative advantage. The really well-off are, of course, unlikely to support a policy of greater equity, irrespective of what the government might do. As the current objections to the taxation reform indicate, they want a complete freedom to exploit the economy under most favourable conditions (which they expect the government to provide).

Thus the challenges to the welfare state come from the nature of the international capitalist system as well as from the internal conflict of interests. Political, economic, and social objectives that governments pursue are not necessarily compatible with one another.

In Australia, the current division of responsibility for social security and welfare between the Commonwealth and the States means that the Commonwealth provides income support and maintenance through pensions and benefits, and the States provide non-material, personal services and emergency relief assistance. The States are supported in those functions by the non-government welfare sector. Most Commonwealth pensions and benefits are provided **as a right**, subject to certain criteria of entitlement (eg. income and/or assets test). It is at the States' level and in the non-government sector where the recipients are found who are the residue of the market economy. Because welfare services provided by those two sectors are provided not as a right but on the criteria of individually assessed needs, the discretionary aspect of these services makes the agencies concerned the agencies of social control.

The States and the non-government sector provide what is referred to as 'supportive services'. Except for emergency relief assistance, these services are of non-material nature, such as budgeting advice, crisis intervention, and a range of professional services that come under the name of counselling. While the value of these services cannot and should not be discounted, it is difficult to assess what these services actually achieve. A question can be asked: do these services alleviate poverty, or do they assist people to live in poverty? This issue may be regarded as a dilemma of welfare (Jamrozik, Drury and Sweeney, 1986, forthcoming).

For some years now, State welfare departments have endeavoured to free themselves from the traditional mould of performing essentially the function of social control. They have widened the scope of their activities, introduced new legislation, and attempted to substitute the concepts of prevention and development for that of control. However, in the current division of responsibility between the Commonwealth and the States, the function of State welfare agencies is distinctly residual, as witnessed, for example, in the present debate on the responsibility for emergency relief assistance.

We have a situation of public services provision which Rein classifies as 'upper-case' and 'lower-case' services. The upper-case services, such as health, education, housing, etc., are based on universal entitlement, or universal requirements. These services are provided through a variety of settings - public, private, the non-profit sector - often through public financing and private administration. The lower-case services are more personal, selectivist and/or discretionary, supporting the main function of the upper-case services, and often used to 'help people to adjust' to the upper-case services (1983:40). It may be observed here that the upper-case services perform the enabling function of the welfare state, while the lower-case services have a varied degree of social control function. Furthermore, the access to the upper-case services is largely determined by a person's position on the socio-economic ladder: the higher that position the easier the access to those services (Jamrozik and Stewart, 1985).

There are indications in many areas of economic and welfare activities that the two-tiered welfare state emerges as a distinct possibility of becoming a permanent feature of the Australian scene. There are certainly signs of it in the access to the labour market, as well as in the access to material and social consumption. The results are particularly evident in the education system and now in the early childhood services as well. I think, it is necessary to acknowledge these trends rather than ignoring them. If the trend in that direction is to continue, the compound effect will be a divided society, with a minority of the population paying the price for the relative (and in many cases absolute) affluence of the majority. By not engaging in a critical discourse and evaluation of policies and services, we leave the field to the opponents of the welfare state and to their interpretation of issues. By taking an uncritical and often self-congratulatory attitude, we create a climate of belief in progress towards a fairer society, while the progress might be illusory. We may receive acceptance and agreement of the converted and of those who have a self-interest in the welfare state, but what has the effect in the wider community is the arguments which appeal equally to the well-off sections of the society as well as to the alienated minority of the poor - however simplistic some of the arguments might be.

We also need to acknowledge that attempts to reform a welfare service or a public utility for the purpose of improving its performance usually meet with resistance from the providers of services if they see their interests threatened. The defence of advantage and privilege can be as sharp and determined by the relatively advantaged as by the absolutely privileged. We have seen this in health services, in education, and in other areas as well. And each time this happens, new ammunition is given to those who do not wish to see an improvement in the performance of the welfare state but rather its abolition.

Summary

This paper has drawn on a wide range of recent literature concerned with social policy and social welfare so that the issues of local concern can be seen in a wider perspective. It is evident from this overview that the trends observed in the Australian economy and in social policy are similar to those in other industrialised countries. This indicates that we are part of one global system which imposes certain constrains on social reforms in any one country. The 'international financial community' can wield quite a clout, especially in the smaller states which are vulnerable to outside pressures and vagaries of the global market.

The challenge to the welfare state and search for alternatives come from those who argue that the developemnts in public expenditure have gone too far and have to be constrained and reduced; as well as from those who argue that the welfare state has not achieved any great results in reducing the inequalities generated in the market economy. There is a growing recognition in the latter group that more attention in social policy should be given to the source of inequalities than to the remedies alone.

We need to ask, why is it that despite a growing affluence in the society and despite an increasing expenditure on social security and welfare there is a growing inequality and poverty. What are the forces at play that lead to such a situation? In the prevailing perspectives in social research and in social policy the focus of attention tends to be on the outcomes of these forces (whatever they are) but not on the forces themselves; that is, the focus is on the outcome of inequality and on possible remedies rather than on the mechanisms that lead to inequality.

The problems of the welfare state present not only issues of policy but also issues of social theory. A characteristic weakness of both has been concentration of attention on the remedial (eg. redistributive) functions of the welfare state and relative neglect of attention on the enabling functions of the welfare state. By not giving sufficient attention to the latter, public expenditure is seen as a cost, although a substantial part of it may be seen more appropriately as investment (eg. business concessions, economic infrastructure, educated labour force, etc.). Thus the 'real' beneficiaries of the welfare state remain invisible. We need to widen our perspectives so as to make both the enabling functions of the welfare state and the beneficiaries of those enabling functions visible.

However simplistic the arguments against the welfare state might be, they have considerable appeal in wide sections of society. Neither can it be ignored that certain 'weaknesses' are evident in the effects of social policies, such as intended or unintended support for inequalities, for political or economic reasons. These 'weaknesses' are then used by the opponents of the welfare state as demonstrations of the welfare state's 'failure'.

A critical examination of social policies and their outcomes is necessary in order to correct the 'weaknesses' and thus lessen the danger of 'dismantling' the welfare state. If this is not done, the alternatives projected by the opponents of the welfare state are likely to find increasing support in the community. If this were to succeed, the outcome would be a society governed by the principles of exploitation of the weaker sections of the community by the advantaged sections - a society governed by the principles of Social Darwinism.

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DISCUSSION FORUM

DISCUSSION FORUM

It was not possible to record all questions and comments raised at the seminar at the conclusion of each paper and in the last session which was an open discussion forum. What follows below is only a brief summary of issues raised and/or commented on by the participants.

Many comments were made about the sources of data used in social policy/ social welfare research and about the methods of study and analysis used by researchers. Views were expressed on the need for regional data, as the averages tended to conceal considerable differences among the regions (eg. city and country) and among the States. The need for rigorous quantitative analysis was emphasized but views were also expressed that quantitative analysis alone did not always convey an adequate picture. In studies of service provisions, especially, there was a need for qualitative analysis.

Tax transfers and social security payments: Comments were made concerning the data on the recipients of multiple benefits; tax paid by pensioners and beneficiaries; and the size of the public sector. There was a general agreement with the argument that tax concessions and social security payments were achieving the same purpose, although, it was suggested, this was probably not well understood in the community. However, a view was also expressed that an alternative to financial assistance to families with young children was to provide good quality early childhood/childcare services. This might be regarded as 'the best investment' in the future. Cash transfers to families were only one part of family support services. Concern was expressed that the recent proposals to amend the Child Care Act, 1972, was going to jeopardise progress in the direction of providing early childhood services for all families which needed them.

Housing and poverty: Questions were raised about the methodology used in calculating the poverty line, as well as the concept of the poverty line itself. For example, it was pointed out that the relative decrease of the aged living under the poverty line did not indicate how far **above** the poverty line were those who were no longer **under** the poverty line. Was it 'just over', which could mean simply one or two dollars a week, The rigid cut-off point did not indicate this.

Questions were asked whether the increased poverty-after-housing-costs could be attributed to the decrease in the provision of public housing. Should more consideration be given to rental supplements for the recipients of welfare benefits/pensions who did not own their own housing? Was there a potentially inflationary effect of rental supplements? What was the likely effect of rental supplements? What was the likely effect of capital gains tax and disallowance of 'negative gearing' on the availability of housing for rental?

The situation of low-income families who were owner-purchasers was also raised. A significant number of these families with children were seen to be living in poverty. Were these predominately single-income families? At the other end of the age scale, projections of longevity suggested that the cost of housing would constitute a problem for the aged who rented, especially for women. Another group who was seen to experience hardship were the long-term unemployed. There were indications of a growing trend towards renting rather than purchasing. It was suggested that some people might remain in the rental market throughout their lives. Did this trend correlate with the growing incidence of people living under the poverty line? There was an agreement in most comments that the affordability of housing, rented or purchased, was an important issue for consideration in social security/social welfare policy.

The older workers and unemployment: There was agreement in the comments about the weaknesses in the interpretations of labour market changes, especially those arrived at by economists. Problems were seen also in dealing with aggregate data and correlations based on the aggregates: explanations of causality based on such correlations could be spurious and misleading. Need was expressed for more work on micro-data sets.

Comments were made that the trend towards early withdrawal from the labour force was evident throughout Western Europe. This suggested the need for comparative studies in this area. The trend was not necessarily seen to be a 'problem' while unemployment rates were high but it could become a problem should the situation in the labour market improve.

The human aspect of early retirement received considerable attention in the discussion. Early retirement often meant that people were 'written off', and for many of them early retirement could become a personal and economic disaster. There were diverse reasons for people's early withdrawal from the labour force, and more studies were needed to ascertain the variety of reasons for as well as the effects of early withdrawals from the labour force.

Comments were also made about the apparent differences between the rates of early retirement for men and those for women. There seemed to be a scarcity of data regarding the latter, it was argued, and research in that area was indicated, especially qualitative research. It was suggested that women might be more resistant to early withdrawal from the labour force than men.

Social policy and the welfare state: The issues raised in the paper covered a range of questions and comments. Could the claims about the increase in inequality be substantiated? Were inequalities in Australia greater in the 1980s than they were in the late 1940s? How important was the enabling role of the state? Was that role likely to increase in future?

A comment was made that the provision of services which benefited the middle and higher income earners, such as education, health, etc., was made because this was 'good for the nation'. Would the same argument equally apply to substantiate the reasons for the provision of benefits and services to the disadvantaged sections of the population?

Regarding the issue of the challenges to the welfare state, the ability of the Right to popularise certain issues was acknowledged, such as the issue of 'free choice'. What has been the response of the Left to those challenges?

A comment was also made that the question 'Are there alternatives to the Welfare State,' called for a more comprehensive answer than was suggested rather than directly provided in the paper.

OPEN FORUM

In the discussion, a number of issues raised earlier received further attention. A question was raised whether all government expenditure should be made as 'visible' as social security expenditure. The latter attracted considerable criticism and often a stigma for the recipients. Should certain distinctions be removed by introducing universal benefits rather than means-tested benefits? Was it possible to do this? What would be the effects of a universal social security system. Would such a system fail to redistribute income to lower income earners?

The issue of quantitative versus qualitative analysis received renewed attention. There were some differences of opinion regarding the respective merits of each, although there seemed to be some agreement that both were necessary to the understanding of social welfare issues.

With regard to government expenditure, an opinion was expressed that all such expenditure had both a national interest as well as attracting at the same time some benefit to individual persons. For example, as concessions to business and industry stimulated production and investment, pensions and benefits maintained and also stimulated consumption of goods and services. Both the production and the consumption were important to the functioning of the economy. A further opinion was given that the provision of pensions, benefits and subsidies to the disadvantaged sections of the population also performed an important function of maintaining the social order.

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