

## Poverty and the Workforce

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## Poverty and the Workforce

by

Bruce Bradbury, Diana Encel,  
Jenny James and Joan Vipond



THE UNIVERSITY OF  
NEW SOUTH WALES

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The views expressed in this publication do not represent any official position on the part of the Social Policy Research Centre (formerly the Social Welfare Research Centre). This report was produced to make available the research findings of the individual authors, and to promote the development of ideas and discussions about major areas of concern in the field of social policy.

## FOREWORD

The extent of poverty is a significant indicator of the overall well-being of any community. Not surprisingly, research into the incidence and structure of poverty has been an important component of the research agenda of the Social Welfare Research Centre since its inception. A particular focus of our earlier work has been the impact of housing costs on poverty and more recently the Centre has published work on poverty among families with children.

This report extends our earlier work by looking at the relationship between poverty and the workforce. It utilises data released by the Australian Bureau of Statistics in the unit records from the 1981-82 Income and Housing Survey. Although the position of the labour market has deteriorated considerably since then, the report brings together an extensive analysis of these data and discusses the implications of subsequent labour market developments. The report thus draws together work on poverty and the broader question of the social welfare implications of labour market changes.

The recognition that the alleviation of poverty can only come about in a sustainable way through wider access to employment opportunities has been long-standing in Australia. The Commission of Inquiry into Poverty noted in its first Main Report released in 1975 that 'the dominant factor which determines poverty is whether or not the head of the income unit is able to work' (p.16). The current report emphasises the relevance of this observation to the situation prevailing a decade after the work of the Poverty Commission. The need to recognise the central role of employment and labour market policies aimed at maintaining high employment levels is as pressing now as it ever was. Full employment must be seen as a major objective of both economic and social policy.

Fresh emphasis to these concerns has been given by recent government policy initiatives aimed at developing a more effective integration of income support and labour market policies. The need to continue on this path has been reinforced in the recently released Social Security Review Issues Paper, **Income Support for the Unemployed in Australia: Towards a More Active System**. Although this report was prepared prior to the Social Security Review's paper, I hope that it will contribute to the debate which promises to have a major bearing on the development of income support and labour market policies appropriate for Australia in the 1990s and beyond.

Peter Saunders  
Director  
Social Welfare Research Centre

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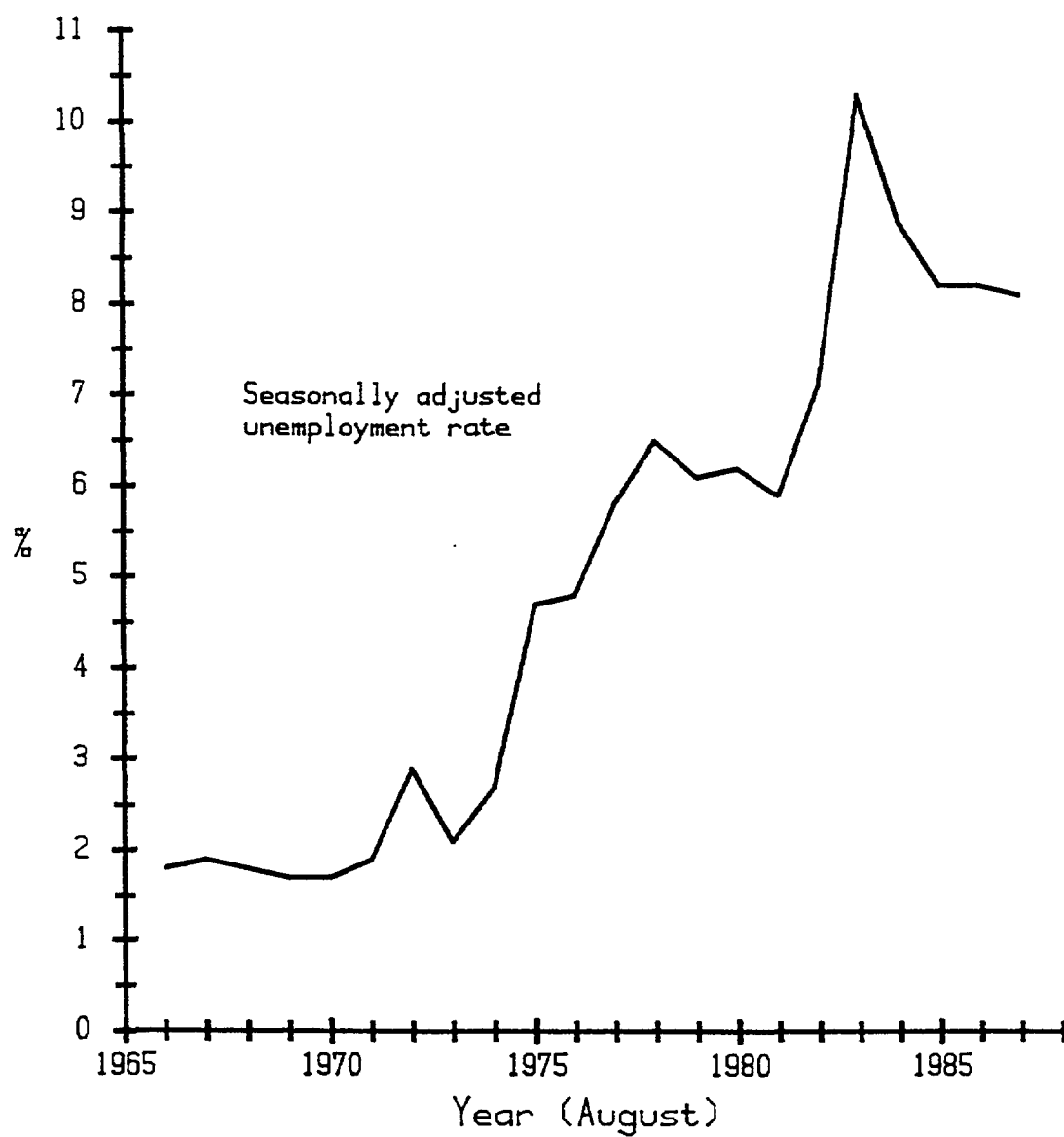
## OVERVIEW

The purpose of this report is to survey several aspects of the nature of poverty among people who are in the workforce. The report covers the period from the early 1970s up to the end of 1987. It reviews literature which has analysed the association between unemployment and poverty. Comprehensive measurements of the level of poverty among people in the workforce, based on the unit records of the **Income and Housing Survey, 1981-82**, are presented. The report updates these findings by describing trends in labour market conditions in the 1980s and reviewing policy developments.

Defining poverty is difficult. In this report, depending on the context, a broad or a narrow approach is adapted. In reviewing the literature and making qualitative assessments, the perspective is broad. Poverty implies not only inadequate incomes but also, possibly, debt, lack of access to medical and other services, and social isolation. The report contains no original survey work. Its statistical measures are based solely on records collected by the Australian Bureau of Statistics and so must adopt a restricted approach to the nature of poverty. These statistical methods follow those established by the Commission of Inquiry into Poverty. The incidence of poverty is estimated by the proportion of people whose annual incomes were below the poverty line.

The context of the report is the changing labour market conditions of the 1970s and 1980s. Although no single statistic can adequately describe them, the unemployment rate is a useful overall indicator (see Figure 1). Before the recession of 1974 to 1975, unemployment in Australia was usually well below 3 per cent. This recession saw unemployment reach 4.7 per cent in August 1975. There was no recovery from this level. Indeed over the next six years, until 1981, unemployment fluctuated between 5 and 6.5 per cent. The next recession, during 1982 and 1983, saw the unemployment rate climb to just above 10 per cent. During 1984 and 1985 unemployment declined by about 2 percentage points. Since then it has fluctuated around the 8 per cent level. These massive increases in unemployment, as compared with the postwar period until the mid 1970s, have many implications.

Figure 1 The Unemployment Rate,  
1966 to 1987



Source: A.B.S. The Labour Force, (various years)  
Cat. Nos. 6204.0 and 6203.0

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The report reviews the research which, from the mid 1970s, documented these implications. Surveys of unemployed people demonstrated the association between unemployment and poverty, emphasising the concentration of unemployment amongst the people with fewest resources to sustain falling incomes. Many analysts focused on the inadequacies of the income support system to deal with the problems created by prolonged unemployment. Particular emphasis was placed on the low level of support payments and the 'poverty traps' created by the nature of incomes tests for receipt of benefits. Policy debates on how to prevent the increasing poverty associated with rising unemployment reflected a serious concern with the problems. There were times, however, especially when reducing the unemployment rate seemed particularly difficult, when attention was diverted to arguments about abuse of the income support system.

The statistical measurements contained in this report confirm the close association between poverty and unemployment which had been indicated in other research. In addition, the data show a high level of poverty among the self employed, though this result is qualified because of problems associated with the nature of the data.

In the statistical measurements of the report, poverty was estimated by the proportion of income units with incomes below the poverty line in 1981-82. An income unit refers to the unit used in aggregating the incomes of individuals. Individuals are employed in the workforce, poverty is experienced by both workers and their dependants. Here, the sharing of incomes between husband and wife was assumed. Needs were aggregated among parents and dependent children. It was assumed that family responsibilities did not extend beyond these limits. The whole population was classified into one of four types of income unit, single person, sole parent with dependent child(ren), couple and couple plus dependent child(ren). The value of the poverty line varied according to the size and type of income unit.

The following results are described in detail in Part 2:

- . in 1981-82, the incidence of poverty among all income units with at least one member who was in the workforce for the whole year was 7.8 per cent;

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- . by family type, this incidence ranged from the highest level of 19.7 per cent among female sole parents to the lowest level of 3.0 per cent among couples without dependants;
- . the incidence of poverty varied markedly depending upon whether the main workers in the income unit had been unemployed or not;
- . considering only income units dependent on a full time worker, the incidence of poverty was 36.4 per cent in cases where the worker had been unemployed while it was 3.6 per cent of cases in which there had been no unemployment;
- . poverty was higher among income units dependent upon part time workers than upon full time workers;
- . among the part timers, there was again a large difference in the incidence of poverty between those who had and those who had not experienced unemployment;
- . of the 330,300 income units in the workforce who were in poverty, 56 per cent had experienced some period of unemployment, 5 per cent depended on part time workers who had not been unemployed and the remaining 39 per cent had been full time employed all year;
- . among full time workers who had not been unemployed, poverty varied according to whether the worker was a wage or salary earner or was self employed;
- . among full time wage and salary earners who had not been unemployed, the level of poverty was 0.7 per cent and lower than had been found in 1972-73 by the Commission of Inquiry into Poverty;
- . among self employed, full time workers the level of poverty was 15.7 per cent which was higher than in 1972-73;
- . the housing expenditures of self employed people were significantly higher than those of wage and salary earners on the same income levels;
- . caution must be used when measuring poverty among self employed people since annual incomes may be an inappropriate measure of the level of resources available to them;

- . the incidence of poverty among wage and salary earners and their families would have been low even if their spouses had not been employed;
- . measured poverty among the self employed would have been significantly higher, were it not for their spouses' earnings.

These detailed statistics for 1981-82 show that, while there can be doubt about the exact level of poverty among self employed people, there can be no doubt that the worsening of economic conditions from 1974 contributed to increasing poverty in Australia. This reflected a failure of policies to either improve labour market conditions or provide adequate levels of income support for those who were unemployed.

Since 1981-82, unemployment has increased markedly and the economic constraints which might permit pursuit of expansionary macroeconomic policies have become more binding. The level of poverty is estimated to have increased. Families with children have been particularly hard hit. The proportion of all Australian children who lived in families where the chief wage earner was unemployed rose from 2.6 per cent in 1980 to 6.3 per cent in 1983 and was 5.2 per cent in 1986. As a macroeconomic cure for unemployment is elusive, policies which might alleviate the problems of unemployed people are vitally important if the social consequences of our economic situation are to be faced in an equitable way.

Public opinion is not sympathetic to the problems of unemployed people. Opinion polls have regularly canvassed people's attitudes to the causes of unemployment. During 1975 and 1976, just after the first major increase in unemployment, there was a decline in the proportion of people who felt that the cause of unemployment was that people did not want to work. Similarly, the continuing historically high levels of unemployment between 1976 and 1982 did lead to a further reduction in willingness to give this reason. However, subsequent to 1982, more people have apportioned blame to the unemployed, despite the massive rise in unemployment during 1982 and 1983. Currently, the proportion of people blaming the unemployed is almost as high as it was in 1975.

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Public attitudes which blame unemployed people for their economic circumstances constrain political decisions as to the levels of income support for unemployed people. In addition, there is a belief that high rates of unemployment benefit may deter work effort. Of course, the fiscal crisis of recent years adds another constraint to the development of adequate policies.

The general structure of policies towards unemployed people has not changed greatly since the mid 1970s. The main emphasis has been on income support, with Commonwealth expenditure levels on unemployment benefits being more than three times greater than finance for labour and employment programs. The large expenditures on job creation programs during 1983-84 and 1984-85 provide the only important exceptions.

Despite the importance of income support (both to these unemployed and as the government's main policy response), unemployment benefits have provided incomes below the poverty line for most of the period. These benefits are not generous when compared with rates paid overseas, though the unlimited duration of unemployment benefits in Australia offers more protection to the long term unemployed than do the insurance based schemes of other countries.

The changes that have been made in income support concern children and youth.

The Family Allowance Supplement, introduced in December 1987, assists the children of all low income parents whether employed, unemployed or not in the workforce. Increased assistance in this form avoids the stigma attached to helping unemployed people because it is designed to meet **family** needs. Furthermore, because it is available to people in work, it may have less effect on incentives than other forms of assistance.

The restructuring of income support for youth involved replacing Unemployment Benefits with a Job Search Allowance for 16 and 17 year olds. The new scheme, unlike Unemployment Benefits but like educational allowances, is means-tested on parental income. The change implies a shift of responsibility to parents to maintain their children to age 18 rather than age 16 years. In recognition of the problems this might cause, the

government introduced a homeless allowance for youth not able to live with their families. Such changes rationalise income support for youth and increase incentives for educational participation.

During the 1980s there was a short term attachment to job creation schemes with the Wage Pause Program of December 1982 and its replacement the Commonwealth Employment Program of 1983. In 1987, the CEP was abolished. Government now places education and training at the forefront of its microeconomic policies to ameliorate unemployment but the level of fiscal support is not great.

Overall, this report spells out in considerable detail the social consequences for the workforce of the economic decline which began in the mid 1970s. Many aspects have been described. Of them all, the clearest relationship that emerges is that between unemployment and poverty. On the basis of the patterns evident in 1981-82, one third of workers experiencing unemployment during a year will, with their dependants, live in poverty. This is the scale of the consequences that should be considered in debates on:

- . the economic constraints that prevent the use of macroeconomic policies to reduce unemployment (whether they arise from the size of our foreign debt, the rate of change in prices and wages, the level of real unit labour costs or whatever has emerged as requiring prior consideration to improving the level of job opportunities);
- . improving income support for unemployed people (reflecting the political and economic constraints on ameliorating the effects of unemployment); and
- . improving training and job creation schemes (and so adopting a fresh approach to the problem).





## PART 1

### RESEARCH ON POVERTY AND UNEMPLOYMENT, 1975 TO 1987

The study of poverty in Australia has been a major research theme since the mid 1960s when R.F. Henderson and colleagues began the work which resulted in the publication of **People in Poverty: A Melbourne Survey** (Henderson, Harcourt and Harper, 1970). In 1972 Henderson was appointed by the Prime Minister, W. McMahon, to head an independent, non-parliamentary Commission of Inquiry into Poverty. The report of this Commission appeared in 1975. The Inquiry found that

The dominant factor which determines poverty is whether or not the head of the income unit is able to work. The 1973 survey showed that the great majority of the very poor were not in the workforce. (Henderson, 1975, p.16)

At the time of the Inquiry, the seasonally adjusted unemployment rate was 2 per cent per annum. Since then unemployment has risen. In this part of the report, we review the ways in which the changes in poverty associated with the increasing unemployment have been recognised and recorded.

Unemployment has also been a major subject of study over a similar period of time. The Brotherhood of St. Laurence, for instance, produced a series of publications (particularly by Graeme Brewer) in the 1970s, drawing attention to the plight of unemployed workers and their families. Yet it was not until 1979 that Keith Windschuttle produced a widely-read, full-length work on unemployment in Australia. Moreover, one of his main conclusions was that 'getting anyone to take the issue seriously' (p.1) was difficult.

Analysis of poverty would be impossible without some agreement on measurement. Henderson and his co-workers devised a 'poverty line' for their own use and, despite criticism, other researchers have used versions of this 'line' in their work. It is useful to begin, therefore, with a brief discussion of the literature relating to poverty measurement in Australia. Works which, while examining the economy in general, identify direct links between poverty and unemployment, will be reviewed in the section that follows. We then report on studies which provide evidence of this link, either by analysing workforce statistics or by surveying selected population

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groups. A further section reviews the literature showing that unemployment does not strike randomly at rich and poor alike but is concentrated in certain disadvantaged groups. Finally, we review works concerned with unemployment benefits, incentives to work, and the poverty traps which affect unemployed people.

This review will confine itself to those works which directly refer to the connections between unemployment and poverty, especially the effects of unemployment on the incomes of unemployed people. We will not examine the body of literature which documents the rise in unemployment, nor changes in the nature of unemployment in terms of duration, though we recognise that those who have written about these problems, mainly economists with a particular interest in the labour market, have contributed much to our understanding of the situation. Nor will we look at the literature which examines the nature and extent of poverty, except as it documents its relationship to unemployment.

### 1.1 The Measurement of Poverty

For his examination of poverty in Australia, Henderson defined the level of income necessary for an 'austere' standard of living, which he assumed to be the level of the minimum wage plus child endowment for a family of two parents and two children. This income he called the poverty line; people receiving incomes below this line were described as 'very poor' (Henderson, 1975, p.13). He then used data on relative expenditure patterns prepared by the Budget Standard Service of New York to produce 'equivalence scales'. These were devised to convert the poverty line income from that of the standard family to levels relevant to income units of other sizes and structures, depending also on the employment status of the head of the income unit and on housing costs<sup>1</sup>. The poverty line was then expressed as a percentage of seasonally adjusted average earnings in Australia and this relationship was used to produce updated versions of the line. The Institute of Applied Economic and Social Research and the National Institute of Economic and Industry Research regularly recalculate levels of the poverty

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1. Income units describe either families or individuals. Within an income unit, incomes are assumed to be aggregated and so too are the total needs of the members of the income unit.

line.<sup>2</sup> The availability of these updated versions at regular intervals is one of the practical advantages of using the Henderson line for comparative purposes.

The method of determination of both the line and the equivalence scales has been much criticised (Henderson, 1980; Saunders, 1980; Stanton, 1980; Social Welfare Policy Secretariat, 1981; Kakwani, 1983 and 1986; Cox, 1982; Howard, 1982; Manning, 1982 and 1984; Jones, 1983; Gallagher, 1985; Whiteford, 1981 and 1985; Travers, 1986; Johnson, 1987). It is not the intention, in this brief review, to enter into a detailed discussion of the alternative methods of calculation suggested nor of the criticisms, some of which have been concerned with the argument about the existence of poverty as compared with 'relative deprivation', the concept popularised by Peter Townsend in his major work on British poverty.

Whiteford (1985) in his review of poverty measurement and equivalence scales found that no set of equivalence scales combines 'theoretical, empirical and consensual validity' (p.130) and recommended the use of an average of several. He is critical of the acceptance and continued use of the Henderson scales:

'Long establishment' is not a particularly convincing argument for anything, particularly not for the use of a set of equivalence scales. (Whiteford, 1985, p.130)

However for most research purposes where comparisons over time are to be made, a measurement tool must be available. Ian Manning, reviewing the Henderson measurement argues

... that the line is useful as a device in measuring poverty, and as a target and standard in political argument about the acceptable level of minimum incomes and of social security rates. (Manning, 1982, p.13)

Gallagher (1985) also concludes that the detailed Henderson Equivalence scale provides the best measure for examining trends in poverty (p.33). This paper

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2. The method of revision has been changed and the poverty line is now based on Household Disposable Income per capita rather than Average Weekly Earnings. (Manning, 1982, p.9).

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therefore uses a set of equivalence scales and a poverty line linked to the Henderson determinations.

The poverty line was described by Henderson as one which measured 'a very austere' standard of living. The implications of living below the poverty line are described by Philippa Smith (1982) as a 'hand to mouth' existence where people skip meals, have their electricity disconnected and are excluded from a range of recreational activities, where they are isolated from the community and live in a 'crisis situation' (p.149).

A later study, carried out over a period of time in 1985 revealed similar conditions.

The longitudinal data presented here has shown that inability to afford such goods and services is not a once-off event, it is a constant feature of many families' struggle to live on a low income. (Trethewey, 1985, p.41)

This study also shows that incomes on and below the poverty line cannot be solved by financial counselling

For it was lack of money, not lack of budgetting skill, which was the root cause of their poverty. (Trethewey, 1986, p.44).

### **1.2 Unemployment, Poverty and the Economy**

While it may seem obvious that unemployment can imply poverty - because it involves the inability to earn incomes - the seriousness of the association has not often been estimated nor have the exact linkages been clearly specified. At the time of the Poverty Inquiry when the seasonally adjusted unemployment rate was just above 2 per cent per annum, in 16.6 per cent of all of the income units in which the head was unemployed and there was no other identified disability, total family incomes over the previous year were below the poverty line. These unemployed people and their dependants formed just 2 per cent of the total population who were in poverty at that time.

Windschuttle (1979) described the rise of unemployment in the middle of the 1970s. In a section entitled 'Political Persecution' he outlined the principles behind the fixing of unemployment benefit levels, documenting

their relationship to the poverty line under changing governments and describing the policies which have

... made the poorest members of society bear the brunt of economic recession. (Windschuttle, 1979, p.220)

Publishing in the same year, Hollingworth wrote

Unemployment is one of the major causes of poverty. It occurs when there are structural failures in the economic system of a country. (Hollingworth, 1979, p.68)

He commented that the increase in unemployment and its duration meant that more people were receiving unemployment benefits and for longer periods. Hollingworth also noted debt accumulation during unemployment and the high interest payments which contributed to poverty, subjects which are features of the small scale studies we will review later.

By 1980 other writers were taking notice of the implications of unemployment for the level of poverty. Sheehan and Stricker depended largely on the data from the Poverty Inquiry to decide

... that even in 1973 unemployment was an important cause of poverty, and that the financial situation of many of the unemployed was precarious. (Sheehan and Stricker, 1980, p.45)

The rise in unemployment since the Poverty Inquiry,

... must be creating major new areas of chronic poverty, to the point at which the Poverty Report conclusion - that about 7 per cent of income units were in poverty in August 1973 - must be a substantial understatement of the position in 1980. (Sheehan, 1980, p.54)

Concern about unemployment as a major cause of poverty continued to grow. Windschuttle (1981) wrote 'If we deny people work, we consign them to poverty'. Stricker and Sheehan (1981), writing about hidden unemployment described the consequences of unemployment as 'the creation of deep structures of poverty and disadvantage within society'. From 1981 unemployment grew at a greater rate than those writing earlier had experienced. This growth is documented by Jones who suggested that

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... a troubled economy in the 1980s and a shortage of full-time work may once again make unemployment problems a major cause of poverty. (Jones, 1983, p.195)

Unemployment by this time was clearly recognised as a cause of poverty though Gruen sounded a cautionary note.

If unemployment could be wound back, a good deal - though by no means all - the poverty existing in Australia would be eliminated. (Gruen, 1984, p.45)

The basic concept was, however, echoed by Manning.

The chief factor making for a worsening of poverty in Australia in the decade since the Poverty Inquiry income survey of 1973 has been the rise in unemployment. (Manning, 1985, p.132)

As unemployment grew and became a greater economic problem for government, successive Treasurers made reference to it in their budget speeches. John Howard, in the early eighties, was largely concerned with battling wage demands.

Unless there is a moderation in wage demands and fewer industrial disputes it will be difficult to achieve a sustained reduction in unemployment. (Australia, Treasury, 1980, p.3)

It would be grossly unfair if excessive wage demands from those in employment were now to damage the prospects for further job creation just when we have begun to see real gains being made in reducing unemployment. (Australia, Treasury, 1981, p.3)

In 1982, when the 'international recession is now hitting us hard' (Australia, Treasury, 1982, p.1) Howard still stressed this excessive growth in wages as a cause of unemployment and promised help for the unemployed in terms of job training opportunities and work experience placements.

In 1983, there was a change in government and a new Treasurer. Paul Keating regarded the deterioration in the labour market most seriously.

The policy of 'fighting inflation first' had not only failed to restrain the inflation rate but had laid to waste large areas of our industries, relegating hundreds of thousands to the misery and indignity of unemployment. (Australia, Treasury, 1983, p.1)

He explained that the government's economic policies were designed to do away with 'unacceptably high' levels of unemployment.

Today's unemployed are victims of events beyond their individual control. (Australia, Treasury, 1983, p.3)

Programs in his first budget were directed towards the longer term unemployed who were seen to be particularly disadvantaged because of their history and lack of recent work experience.

The 1984 Budget speech was made against a background of comparative success. Wage and price moderation resulting from the Accord were pleasing, but Keating was aware of continuing problems.

The government recognises that unemployment is a principal cause of poverty in Australia. The unemployed have borne the brunt of the failure of previous economic policies for too many years. (Australia, Treasury, 1984, p.6)

He indicated that the government's policy was to 'create permanent employment' and pointed to the need for investment. The 1985 Budget speech recognised particularly the needs of the young and policies in that year were directed towards job creation in the private sector.

By the time of the 1986-87 Budget, however,

The strong economic growth and the huge employment growth of the last three years have now been slowed due to the sudden collapse of our export earnings. (Australia, Treasury, 1986, p.1)

In more detail, Keating forecast

Employment growth is expected to slow to between 1 1/2 and 2 per cent, and as a consequence, unemployment could rise a little. (Australia, Treasury, 1986, p.12)

The policy response to this crisis was to involve the government

... spending less and borrowing less, thereby improving the climate for lower interest rates and for private sector investment. (Australia, Treasury, 1986, p.2)

To assist in reducing spending, new policies introduced were to 'identify and disqualify those wrongfully receiving unemployment benefits', to delay indexation of benefit rises and to increase the allocation for training.



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Increased emphasis on training is to be complemented by reduced emphasis on Government job creation schemes. (Australia, Treasury, 1986, p.16)

The 1987-88 May Statement (a preliminary to the full Budget) took these measures still further. The Community Employment Program which was defined in this context as expenditure on temporary job creation, was abolished. The budgetary environment was set to undertake

... a major restructuring of unemployment benefits and education allowances. (Australia, Treasury, 1987a, p.5)

The abolition of unemployment benefits to 16- and 17- year olds was announced. Other changes in benefit payments and the introduction of a Job Search Allowance (at half the current benefit rate and partly means tested on parental income) were designed to give

... a positive message to those who leave school - either find work or undertake training. (Australia, Treasury, 1987a, p.6)

Appropriate education allowances were formulated to make these options practical for low income families.

These far-reaching reforms will mean that from 1988 we will have virtually eliminated any financial incentive for young people to leave the education system and shift onto welfare. (Australia, Treasury, 1987a, p.7)

Another step taken in these initial budgetary measures was the introduction of procedures to increase the number of teams investigating the application of the more restricted eligibility rules.

While we will not flinch from Labor's commitment to the genuinely needy we must ensure that sponging on social security is systematically eliminated. (Australia, Treasury, 1987a, p.8)

This emphasis was maintained in the Budget Speech which was delivered later in the year. While expressing satisfaction that the government 'has ensured that the difficult international trading conditions have not led to a surge in unemployment' (p.4), Keating referred to 'initiatives to crack down on fraud and abuse' (p.6).

We have systematically implemented measures to exclude welfare cheats from the system. (Australia, Treasury, 1987b, p.5)

Such measures will result in the saving of 'more than \$100 million in unemployment benefit payments in 1987-88' (p.6).

Thus we see that over the period of the first two Labor governments, there was a shift from a successful policy of increasing employment and reducing unemployment to a policy that is concerned with the possibility that unemployed people are defrauding the social security system or that they are reacting to disincentives to work or undertake training. As noted in one of the quotations above, part of this change in policy reflected external economic conditions. These limited the possibility of continuing with expansionary macroeconomic policies and can explain why the task of reducing unemployment stopped having priority. The shift to an attack on the misuse of the social security system and the suggestion that unemployment benefit recipients may be 'cheats' and 'frauds', requires further explanation.

An examination of the perceptions of unemployment in Australia held by leaders of government, business and trade unions and by the workforce itself can help in our understanding of changes in policy.

A distinction is drawn between structural explanations which emphasise economic conditions and job shortages, and individualistic explanations which 'blame the victim'. The results show that government and union leaders give most weight to structural explanations, while business leaders and workforce groups place relatively greater weight on individualistic interpretations. This suggests that attempts to improve policy responses to unemployment may benefit not just by appealing to those who actually make policy decisions, but by attempting to improve the general climate of opinion about unemployment. (Graetz, 1987,p.321)

We return to this issue in Part 3 of this report.

### 1.3 Statistical Evidence

Much of the statistical evidence used to support the broad statements linking poverty and unemployment quoted in the previous section, comes from the report of the Poverty Inquiry. Sheehan commented on the dearth of later data.

No comparable body of evidence is available covering the years since 1974, but it can hardly be doubted that the subsequent increase in long-term unemployment has sharply increased the

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incidence of poverty in Australia, especially as the burden of unemployment on certain sections of the labour force has increased sharply. (Sheehan, 1980, p.53)

The Social Welfare Policy Secretariat (1981) used later data from the **1978-79 Income Distribution Survey** and from the **Household Expenditure Surveys** of 1974-75 and 1975-76 to produce their own poverty estimates. Although they criticised the Henderson calculations and developed their own methods of measurement (in conjunction with the Australian Bureau of Statistics) their findings supported the major conclusions of the Poverty Commission.

But, regardless of whether the ABS/SWPS or Henderson relativities are used, income units whose principal source of income is unemployment benefits are particularly likely to have low equivalent incomes. This result should be seen as relating to the longer-term unemployed, since persons who experience short spells of unemployment are unlikely to have benefits as their principal source of income. (Social Welfare Policy Secretariat, 1981, p.190)

Further, they concluded along with the Poverty Commission, that the dominant factor determining poverty is the position of the head of the income unit in the labour force.

But not only is the participation in the workforce of the income unit (or household) head of great importance but so also is the **extent** of participation, whether full-time or part-time, full-year or part-year. (Social Welfare Policy Secretariat, 1981, p.203)

Burbidge (1981) made an attempt, 'hampered by lack of up-to-date statistics' to calculate the increase in poverty arising from higher levels of unemployment. He applied the 'relationship found in 1972-73 between period not at work and poverty to figures on unemployment in 1979' (p.172) and estimated that there had been a 27 per cent addition to the number of income units in poverty at the time of the poverty survey, though the figures were not directly comparable.

The estimated increase in the number of income units in poverty as a result of the increased unemployment since 1974 indicates that, although families have a lower incidence of unemployment than young people and couples, the likelihood of families being in poverty as a result of unemployment is much higher than for smaller income units. (Burbidge, 1981, p.174)

Saunders (1982) estimated the rise in the incidence of poverty associated with the unemployment of adults and of young people.

Thus, other things constant, the rise in unemployment has increased poverty amongst adult income units from 10.2 per cent to 11.0 per cent, and for juveniles from 16.5 per cent to 27.5 per cent. Aggregating both groups, poverty has increased from 11.2 per cent to 13.5 per cent between August 1973 and August 1979, solely as a result of the increase in unemployment. (Saunders, 1982, p.102)

The data sources used in various estimations of the increase in the incidence of poverty are, as suggested by Burbidge, neither up-to-date nor comprehensive. Assumptions about the data must be made in order to arrive at conclusions, and variations in these assumptions account for the discrepancies in the results obtained, for instance, by Burbidge and Saunders. Nevertheless they both (and those who are cited below) arrive at similar conclusions showing the broad thrust of the impact of unemployment in the increase in poverty.

Kakwani (1983) also analysed available data to produce estimates of poverty in the community. Kakwani's results cannot be directly compared with Henderson's: the latter are based on annual income while Kakwani used the Household Expenditure Survey of 1975-76 in which employment status and income were based only on the two week survey period. Henderson used income units while Kakwani's study referred to households. Nevertheless, his results confirmed the now prevalent view that unemployment was a major cause of poverty (p.104).

Cass and Garde (1983) looked at the data on income distribution for 1978-79 to determine the financial effects of an extended period of unemployment. They quoted figures (p.96) for the mean annual income from all sources for both married couples and for one-person income units which (converted here to percentage terms) showed that for single people who were unemployed for 5 to 13 weeks the mean income was 81 per cent that of the employed and for those unemployed for 27 to 39 weeks mean income was 65 per cent that of employed single income units. For married couples the effect of unemployment on incomes was even more severe (75% and 53% respectively). Their work demonstrated not only the financial deprivations caused by unemployment but also 'the likelihood that unemployed people are poorly paid

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when in work', (p.97), a thesis which is taken up in works by other authors reviewed later in this chapter.

The same data from the **1978-79 Income Distribution Survey** were examined by R.E. Smith to determine the relationship between employment status and incomes in Australia for **individuals**.

Those experiencing the greatest number of weeks of unemployment generally had the least income. The mean income of persons with one week of unemployment was, for example, \$8,990, compared with \$2,520 for those who were unemployed all year. Likewise, persons who were in the labour force year-round and full-time tended to have higher incomes than part-year or part-time participants.  
(R.E. Smith, 1985, p.228)

He also investigated the relationship of employment status and **family** incomes, using the 1 per cent sample from the 1981 Census, and found that the unemployed were mostly in low-income families. However, a small number (7%) of year-round full-time workers had low incomes and most of the people in low-income families were not unemployed. Smith concluded that the link between poverty and unemployment is not as strong as claimed by some other researchers. His argument here was congruent with the Poverty Inquiry finding that of the population whose incomes fell below the poverty line, 15.4 per cent, had no identified disability (i.e. were not unemployed), some of whom were 'working families with one, two or three children for whom existing income provisions are inadequate'. However, the Poverty Inquiry results refer to 1973 when unemployment was low; Smith's analysis refers to the years 1978 to 1981 when unemployment levels were higher. Further research is necessary to establish the actual strength (or weakness) of the association between employment and poverty during the 80s.

Since the works reviewed above have appeared, further data have become available (with the release of the unit record tape of the **Income and Housing Survey 1981-82**). The purpose of Part 2 of this report, is to provide detailed estimates of poverty among people who were in the workforce using as a basis these unit records.

### 1.4 Small Scale Studies

The small scale studies which we review are useful because they indicate how unemployment creates poverty. These studies have employed

different methods, reported on different data and have been carried out for different purposes. Some have been concerned with the incidence of poverty, others with the labour market experiences of the unemployed and some have been directly concerned with the poverty experienced by the unemployed. They have been carried out at different times from 1973 to 1986 and only Curtain (1985) and Trethewey (1986) have employed a longitudinal aspect. As a result, they are not directly comparable. Nevertheless, the information gathered does demonstrate the link between unemployment and poverty quite dramatically. (Table 1.1).

The incomes of unemployed people dependent on Social Security benefits and allowances fall below the poverty line to different degrees at different times (see Figure 3.5 which shows the income entitlements of the unemployed as a percentage of the poverty line for several income unit types, since 1972). At the time of the study reported by Brewer (1984) unemployment benefit plus family allowance was \$28.73 less than the poverty line estimate in the case of families with three children.

Jordan (1975) found that although respondents in his survey of long-term unemployed people in 1973 said they had to watch their spending carefully, they seldom thought themselves 'poor' in the sense of lacking the means of subsistence. Many saw their current low income as temporary and few had been forced to seek help from welfare agencies. Later, Philippa Smith commented on the 'temporary' role of unemployment benefits.

It is often implied that the unemployed suffer few costs being out of work for very short periods of time, being content to live on unemployment benefits or being reconciled to unemployment by virtue of having characteristics making it difficult for them to work. (P. Smith, 1978, p.36)

She pointed out that the reality was different. Unemployed people in her study had suffered substantial periods out of work. When these were prolonged or when there were repeated bouts of unemployment, family resources were eroded and family well-being was affected. Many were forced to make application for emergency relief, a manifest indication of poverty.

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TABLE 1.1 : SMALL SCALE STUDIES OF UNEMPLOYED PEOPLE

| STUDY  | SAMPLE DRAWN FROM   | SAMPLE SIZE                          | IMPACT SHOWN  |
|--|---|--------------------------------------|---|
| POVERTY INQUIRY (1975), with ABS.  | Social Security beneficiaries. Families which included married men and dependent child(ren), head unemployed between 6 weeks and 2 years. | 2,500                                | Families had no financial buffer against poverty: small savings, big debt loads. Some debt repayments were in excess of weekly income. Situation deteriorated with length of unemployment.  |
| JORDAN, Alan (1975), and CES, for Poverty Inquiry.                                 | Registrants at CES unemployed at least 6 weeks.   | 305                                  | 8 per cent mentioned debts and run down of savings; occasional sale of assets.  |
| BREWER, G. (1975), Brotherhood of St. Laurence.                                    | Unemployed people actively looking for work.  | 160                                  | 41.5 per cent had no savings and only 35 per cent had more than \$50.   |
| BREWER, G. (1980), Brotherhood of St. Laurence.                                    | As above.   | 31                                   | 1 in 4 persons paid around half their benefit in rent. Many had difficulty in keeping up with rent (were 3 weeks or more behind in payment). Over two thirds had received job earnings \$20 or more below average weekly earnings prior to unemployment. Debts increased with duration, sometimes made between time of becoming unemployed and receiving the benefit.       |
| BREWER, G. (1984), Brotherhood of St. Laurence and Social Welfare Research Centre. | As above  | 124                                  | Gap between Social Security entitlement and poverty line up to \$28.73 (for families with 3 children). One half had no savings, one quarter had \$500 or less. Those with savings used them to supplement benefit. Savings generated over lifetime for their retirement were eroded by unemployment. Many had below national average weekly earnings prior to unemployment. |
| COUNCIL OF SOCIAL SERVICE OF NEW SOUTH WALES (1975).                               | Unemployed women  | 1,216                                | 35 per cent of married respondents had household incomes 'inadequate for basic needs'; husband's income was less than \$140 per week; they themselves were ineligible for benefits.   |
| SMITH, Philippa (1978), Australian Council of Social Service.                      | Retrenched workers.   | 60                                   | 51 per cent had savings less than \$400. Families were committed to mortgages and other debts. Women were often ineligible for benefits.  |
| SMITH, Philippa (1979), Australian Council of Social Service.                      | 90 low income families  | 11 families                          | Benefits were below poverty line; there were no cash reserves and savings were used up before benefits were received. Debts increased with duration of unemployment.  |
| NICHOLLS, R.G. and LAWSON, A. (1979), SA Department of Community Welfare.          | Unemployed applicants for emergency relief, South Australia.  | 57 families                          | No lump sums had been received on termination of employment. Many families had debts to repay including housing costs and moving costs incurred following eviction for non-payment of rent.   |
| McCLELLAND, Alison and GOW, Helen (1982), Victorian Council of Social Service.     | Applicants for emergency relief, Victoria.  | 28.2% of all applicants              | Increasing duration of unemployment has forced unemployed people to apply for emergency relief. (In 1978 only 17.2 per cent of applicants were receiving unemployment benefits.)  |
| GILBERT, Richard (1984), NSW Department of Youth and Community Services.           | Applicants for emergency relief, NSW.   | 44% of 11,296 applicants i.e., 4,970 | Greatest causes of difficulties were housing costs and lack of fringe benefits. Incomes were below poverty line.  |
| WOODEN, Mark (1987).   | Workers made redundant from 20 or more workplaces.  | some 4,000 or more workers           | There were often long and frequent periods of unemployment, financial and psychological strain, loss of non-transferrable credits, decline in job status and most received lower pay in subsequent jobs.  |

As the labour market deteriorated, the situation described by Smith became more common. A South Australian study of unemployed applicants for emergency relief pointed out:

Significantly, 42 families (73%) at the time of the survey had been unemployed for over 12 weeks, while 34 (58%) were unemployed for over 6 months. Only 10 families (17%) had previously experienced unemployment for a period longer than 12 weeks and 6 (10%) for longer than 6 months. (Nicholls and Lawson, 1979, p.24)

Almost half the families in this study were experiencing unemployment for the first time. In Victoria, a study of applicants for emergency relief carried out in 1980-81 also found that the increasing duration of unemployment had forced more people into poverty; 28.2 per cent of all applicants were unemployed whereas in 1978 a similar survey had shown that only 17.2 per cent of applicants were receiving unemployment benefits (McClelland and Gow, 1982). In 1986 the Victorian Emergency Relief Project reported that of all applicants for emergency relief in the Western Port district, 41.1 per cent were receiving unemployment benefits (Souter, 1986). Brewer (1984) included a discussion of the role of welfare organisations in providing for the unemployed.

Half of those receiving material assistance from community organisations did so in order that their dependants could eat. (Brewer, 1984, p.54)

Another indication of poverty often mentioned in these studies is the accumulation of debt. The Poverty Inquiry found that for some unemployed people, debt repayments were in excess of weekly income; Nicholls and Lawson (1979) found that 40 per cent of their sample were paying up to \$120 a month in debt repayment for consumer items. Some debts were incurred in the time between first becoming unemployed and first receiving unemployment benefit (Brewer 1980). Mortgages were a major form of debt, others were related to hire purchases entered into when family incomes were adequate for repayment (Trethewey, 1986, p.56). This problem was acute not only in families where the head was unemployed, but when women became unemployed and, as wives, were not eligible for unemployment benefits (Smith, 1978; Council of Social Service of New South Wales, 1978). Some debts related to recurring expenses such as electricity or rent; some services had been terminated, medical and dental expenses loomed large.



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The largest item for which people currently owe is medical/dental expenses; 19 families (33%) have outstanding bills of which half owe between \$10 and \$50, while the remainder owe from \$100 to \$350. (Nicholls and Lawson, 1979, p.31)

Debts increased with duration of unemployment and a number of unemployed people were involved in legal proceedings over their debts.

In a study of 50 low income families, Trethewey found that seven of the eight families receiving Unemployment Benefit had loan commitments (p.55) and

... the incidence of both single debt and multiple debts was higher for those families in the study who had three or more children and those who received either Unemployment Benefit or Workers Compensation payments. (Trethewey, 1986, p.56)

The level of savings reported by unemployed people is associated with low levels of income in working lives before the experience of unemployment. The three studies carried out by Brewer (1975, 1980, 1984) each had different survey populations and the information gathered varied from study to study. Two thirds of his 1980 sample had earned less than average weekly earnings prior to their unemployment. In a later study (Brewer, 1984), the average weekly take-home pay of the unemployed sample had been well below national average weekly earnings in their last jobs. Only 35 per cent of his 1975 sample had more than \$50 in savings at the time of the survey while 41.5 per cent had no savings at all; in his 1984 study, one half had no savings and a quarter had \$500 or less. Smith (1978) found that 51 per cent had less than \$400. Trethewey (1986) found that most low income families in her sample (62 per cent) had less than \$20 in their bank account. The study reveals in detail their financial vulnerability and the drastic consequences of fluctuations in income and expenditure. A rent increase, for instance, can cause great disruption to families with no cash reserves.

'The children have been living on water and tinned spaghetti.'  
(Trethewey, 1986, p.52)

Several of the studies reported that many people were reluctant to apply for unemployment benefit while they still had savings, hoping that they would find work quickly or being too proud, or too stigmatised. Savings were quickly swallowed up either before the receipt of the benefits or in supplementing the benefit. This was especially evident when there was no or

only a small lump-sum payment received on termination of employment (Nicholls and Lawson, 1979; Brewer, 1984). Few were entitled to redundancy payments or superannuation. For many in these studies who did receive a small lump sum, it consisted of no more than their holiday pay in their final pay packet (Brewer, 1984; Nicholls and Lawson, 1979).

This situation was particularly important for older workers

... for whom the \$5,000 or more that they had gradually accrued during their time in the workforce represented an important economic foundation for their retirement. In being plunged into unemployment, rather than planned retirement, they were often forced to erode significantly that economic base. (Brewer, 1984, p.36)

Curtain (1985) also found the situation critical among older people in his sample of retrenched workers. Comparing people aged between 45 and 64 in his study with retired people in the same age group in the population, it was the absence of superannuation payments or investments (forms of savings) which created the difference.

Reliance on the dole and accident compensation payments compel most retrenchees to continue to seek work. (Curtain, 1985, p.38)

Debts related to housing costs, and the cost of housing itself is an element in the poverty of many unemployed people. Brewer (1980) found that 1 in 4 persons paid around half of their benefit in rent. Many had difficulty in keeping up their rent payments and were 3 weeks or more behind. Although priority was generally given to payment of rent (Trethewey, 1986), nevertheless 48 per cent of the sample were in rent arrears for at least one of the months monitored in this study. Similar data were presented in other studies. Nicholls and Lawson (1979) found that among the unpaid debts of unemployed clients were moving costs incurred when families were evicted from their rented homes for non-payment of rent. In a later study (Carter, 1986) with a sample of 160 unemployment benefit recipients, 44 per cent said they were in debt.

There is some evidence to suggest that debts increase over the period of time on unemployment benefits, because the average debt of the long term group on pensions and benefits is larger and because the subjective assessment is that the financial situation worsens over the length of time on benefits. (Carter, 1986, p.19-20)

Labour market experiences after unemployment are frequently not promising. Although some research (Kriegler and Sloan, 1986; Arthur and Scott, 1983) found that proportions of their study populations of retrenched workers were re-employed at the same or higher wages, most studies have found that such workers are forced into jobs of a noticeably lower occupational status with lower wage levels (Curtain, 1985; Deery et al., 1986; Ireland, 1983), reflecting both the lack of jobs available and 'the meagre income potential of those who have been found to be susceptible to unemployment' (Brewer 1984, p.16). In an evaluation of evidence from several case-studies of personal consequences of redundancy, Wooden (1987) found that the shock and hardship of involuntary unemployment, along with the long and frequent periods of unemployment which follow, place

... enormous financial strain on the affected worker and his or her family, inducing substantial physiological and mental stress. Even those who find alternative employment often lose non-transferable credits that they have built up such as sick leave and long service leave and lose the privileges of seniority that they once had. On average it appears that workers re-employed suffer declines in their earnings trajectories and in the status of their jobs. (Wooden, 1987, p.66)

Prolonged unemployment awaits many employees when their workplaces close, in spite of the fact that they would be prepared to take lower pay and display no evidence of 'unrealistic wage expectancies' (Deery et al., 1986). This is confirmed by evidence from the Bureau of Labour Market Research longitudinal study of young people.

The wage levels they reported as the minimum they would accept for full-time work were invariably lower, and in some occupations and age groups, markedly lower, than those earned by people who were in employment when interviewed. (Muir, 1986, p.xxxi)

### 1.5 Concentration of Unemployment

As has been noted in some of the small scale studies reviewed above,

... unemployment falls more heavily on individuals whose earnings while in employment are lower than average. (Sheehan, 1980, p.53)

In addition to this,

... the incidence of unemployment and the personal and social consequences of it are concentrated on those already

disadvantaged in one way or another. (Stricker and Sheehan, 1981, p.205)

Two separate issues emerge: the unemployed are likely to have experienced low incomes (either in work or during previous spells of unemployment) and secondly people on low incomes are likely to be concentrated in particular families.

... numerous factors such as unemployment, financial difficulties, impoverished neighbourhoods, physical and mental health problems and so on could combine to lock families into a situation of poverty which made it difficult for adult members to escape and which severely curtailed the life chances of the children. (Sheehan and Stricker, 1980, p.45)

This is echoed by Cox, referring to older workers

... there seems to be a class factor as well as an early retirement factor operating, with those from disadvantaged backgrounds being disproportionately affected by increased unemployment. (Cox, 1984, p.22)

Evidence to support these general statements comes from a variety of sources. It has been shown that those who are more likely to become unemployed are those in the secondary labour market which is associated with high rates of part-time or casual employment and with poor pay (Cass, 1981; Barnett, 1981).

Whiteford examined data from the 1978-79 Income Distribution Survey and from unpublished ABS sources. He concluded, while regretting the lack of data that could be interpreted more precisely,

The data appear to be consistent with the argument that unemployed persons were drawn disproportionately from the low wage-earning population. (Whiteford, 1982, p.42)

The Household Sample File of the 1981 Census provided data which showed that the unemployment of young people was strongly associated with their family income: youth from low income families were more likely to be unemployed (Bradbury, Garde and Vipond, 1986; Brooks and Volker, 1985).

Further analysis of 1981 Census data showed that

The unemployment rate of labour force participants in low income families is much higher than that of participants in high income families. The unemployment rates range from 21.7% among persons in families with incomes of no more than \$8,000 to only 1.5% among those in families with incomes over \$18,000. (Smith, 1985, p.229)

Smith also found that only one tenth of the employed, but half of the unemployed, as well as half of non-participants, were in the lower income families.

Two small scale studies (Brewer, 1984; Cass and Garde, 1984) reported the last employment incomes of the unemployed people in their samples. These were well below national average weekly earnings: just over half of those surveyed had been paid at award rates and a further high proportion had been paid below.

Other evidence for the concentration of unemployment among those already disadvantaged comes from labour market economists (e.g. Gregory, 1982) who have examined the data on unemployed people in terms of durations of spells of unemployment and lengths of job tenure. Using 1975-76 data, Gregory found that

... the unemployed come overwhelmingly from those who have not held a job or whose previous job was of very short duration. (Gregory, 1982, p.238)

In addition,

... the composition of unemployment is steadily changing towards an increasing number of long-term unemployed. (Gregory, 1982, p.238)

Evidence to support the thesis that the unemployed are concentrated in certain families has been found using Australian Bureau of Statistics data for June 1981. At that time 350,200 people were recorded as unemployed but these people were concentrated so that around a

... quarter million families contained one or more unemployed persons. In addition, one family in five had no employed member. (Cass and Garde, 1983, p.97)

Labour force data showed that in 1980 wives of unemployed men were more than six times as likely to be unemployed compared with the wives of employed men. Young people in families where either parent was unemployed were twice as likely to be unemployed as the children of employed parents (Cass, 1982).

Analysis of data from the Household Sample File of the 1981 Census reveals that one in every four unemployed persons shared their homes with at least one other unemployed person (Bradbury, Garde and Vipond, 1985). Of the households with at least one unemployed person, one in every seven had more than one person out of work on census night. Using the same data source and examining the pattern of unemployment rates this analysis found that parents in professional, managerial or clerical occupations, or who were employers or self employed

... had children with significantly lower unemployment than manual workers' children. (Bradbury, Garde and Vipond, 1986, p.202)

Conversely, almost half of the youth with a mother or father unemployed were themselves unemployed (though the small sample size made interpretation problematic).

In a small scale study of unemployed people in Victoria one half of the unemployed people interviewed reported that at least one close relative had been out of work in recent times, and greater numbers were also reported in many instances (Brewer 1984). Similarly in New South Wales the incidence of multiple unemployment in families or households was high.

This finding of the concentration of unemployment in families living in the same household and in kin-related households is evidence of the sharing of labour market disadvantages. These families of the unemployed would therefore have limited resources of income and labour market contacts with which to provide assistance and support. (Cass and Garde, 1984, p.23)

The effect of this concentration is compounded by the fact that the incidence of unemployment is higher among households where the employed members have relatively low incomes (Bradbury, Garde and Vipond, 1985, Chapter 3).

Frey (1986) looked at pension and benefit records of 16 and 17 year olds and found that some 16 per cent of the sample had at least one other

brother or sister living at the same address who was also in receipt of benefit or pension, and some had more than one. Another 18 per cent had at least one parent in the same house receiving benefit or pension. This proportion of young unemployment beneficiaries living in households with multiple unemployment or dependence on social security appears very high. Frey also found (p.33) that the duration of benefit for the parents of these young people was longer than for others in their age group. The longer-term disadvantage and its apparent concentration within families is, as Frey points out, an area needing further research.

Another source of evidence for the concentration of unemployment among those with low incomes comes indirectly from studies which examine spatial or geographic concentrations of unemployment (Vipond, 1980a, 1980b, 1981 and 1982; Faulkner and Nelson, 1983; Forster, 1983; Stilwell, 1980 and 1981). These show concentration of unemployment in certain suburbs, those identified as working-class areas. Stilwell (1981) concluded that the costs of the economic crisis were being borne by those groups least able to protect themselves.

#### 1.6 Unemployment Benefits and 'The Poverty Trap'

One policy response to the rise in unemployment and the accompanying rise in poverty has been the increase in payment of unemployment benefits. Gruen, delivering a lecture on the 'myths of the left and the right', linked these factors:

Higher social security expenditure seems mainly to have prevented poverty from getting worse - which the increase in both unemployment and sole parenthood would otherwise have produced. (Gruen, 1982, p.207)

The effects of benefits on poverty levels for Australia, Belgium, Norway and Great Britain have been examined in an International Labour Office study which referred to 1974. Although benefits considerably reduced poverty in Australia, the reduction was not so striking as in other countries,

... largely due to the relatively low share of income maintenance expenditures in GNP, which is reflected in the very low level of the benefits in that year relative to the poverty line adopted here. (Beckerman, 1979, p.40)

Kakwani (1986), using the Household Expenditure Survey of 1975-76, investigated income distribution and the impact of taxes and cash benefits on poverty, finding, as others before, that

The most severe poverty was observed among households whose head was unemployed. About 65 per cent of persons in those households are poor, the percentage of children in poverty being over 80 per cent. This is an extremely high level of poverty in a country as affluent as Australia. Government benefits reduce the poverty in this group from 76.64 per cent to 63.56 per cent but the personal income tax increases it to 64.91 per cent. These results demonstrate the ineffectiveness of unemployment benefits to have a significant impact on the level of poverty. (Kakwani, 1986, p.257-8)

A measure of poverty for the unemployed has been documented (ACOSS, 1984; Australian Industries and Development Association, 1978) showing the relationship of unemployment benefit (plus family allowances where applicable) to the poverty line. The relationship of the benefit to average weekly earnings has also been examined (AIDA, 1978; Pritchard, 1981). All these measures show a gap, with most groups of beneficiaries receiving incomes well below the poverty line. Pritchard compared the spending power of unemployment beneficiaries with that of workers on average weekly earnings and found a 'dramatic' improvement in the household disposable income of unemployed people as a percentage of average weekly earnings in the period 1966 to 1973.

The rates of unemployment benefits in the 1960s were a national disgrace. (Pritchard, 1981, p.77)

The improvement continued in the period to 1979-80 for all groups except single youth beneficiaries; but the improvement was relative and incomes of the unemployed at that time were still below the poverty line and continue to be so for most income units. (see Figure 3.5)

A recent study analysing increases in social security expenditures (Saunders, 1987) demonstrates a rise in the number of people receiving unemployment benefits.

As a result of the increase in numbers, average real benefit levels have risen at a more modest rate than total real expenditure. This is an extremely important point, since it is average benefit levels rather than total expenditures which determine the living standards of those receiving income support.



... Thus in many instances, the growth in average real pension and benefit levels has not kept pace with the growth of incomes in the community as a whole. (Saunders, 1987, p.80)

Unemployment beneficiaries are treated differently from other pensioners and beneficiaries with regard to fringe benefits and are not eligible for the same range of such benefits. Commenting on the financial position of the unemployed as far back as 1978 the AIDA found the system problematic.

Assuming tight limits on the accumulated wealth of most of the unemployed and their families, the financial position of benefit recipients is determined largely by the level and nature of the benefit scheme itself. Does the benefit system provide 'adequate sustenance'? In the attempt to do this, does it act to discourage entry to the workforce? Can unemployed persons really remain an attractive proposition to prospective employers while living on benefits? ...

Reports from social workers affirm the worry that some (mainly younger) unemployed persons are unable to maintain basic standards of living and nutrition. (Australian Industries Development Association, 1978, p.52)

Conditions under which unemployed people can take jobs to earn some extra earnings, that is, the allowable earnings before their benefits are threatened, are quite stringent.

The very low thresholds on permissible earnings currently leave the unemployed with the choice either of cheating the system to earn a few extra dollars over their subsistence income or of relinquishing opportunities for small amounts of part-time work. On the one hand they are branded as 'dole cheats'; on the other hand they are castigated as 'bludgers'. To raise permissible earning levels would suit the needs of employers as well as letting the unemployed escape from the double bind in which they now find themselves placed by a perverse public policy. (Brewer, 1980, p.21)

This 'perverse' policy operates through means testing and taxation. Using unemployment benefit levels and permissible earnings as at May 1984 and the poverty line for the March quarter of that year, Barling (1984) calculated the effects of the administration of the means test based on income levels of those whose main source of income was the unemployment benefit.

In fact, an unemployment beneficiary can never increase his/her income above the poverty line no matter how many hours they might work since any income over \$70 per week is effectively taxed at 100 per cent. The unemployment benefit is lost, dollar for every

dollar earned, until the benefit and eligibility for the benefit is completely lost. (Barling 1984, p.12)

The term 'poverty trap' has been used to describe a variety of situations, such as that described above, in which benefit recipients cannot raise their earnings above certain levels for fear of losing the benefit or fringe entitlement which, although it is low, is secure. The poverty trap is a particular problem for women whose husbands are receiving a benefit (or have eligibility for a fringe benefit) as work for one member of the family entails loss of benefit for the other.

In the case of a married beneficiary the spouse's income is treated as income of the beneficiary. This effectively debars most unemployed married women with employed husbands from receiving unemployment benefits. (Trivedi and Kapuscinski, 1985, p.174)

It also has implications for the labour force participation of married women. When the wives of men receiving unemployment benefit work openly, their income is subtracted from the benefit available to their husbands. (Scherer, 1978)

In spite of the poverty experienced by the unemployed,

... it is sometimes alleged that there has been a startling increase in the numbers of young men who are voluntarily idle as 'surflies' or something similar. (Henderson, 1975, p.22)

The Poverty Commission Report goes on to refute the allegation, pointing to the very low proportion of such people found in the national survey. Nevertheless this allegation continues to be heard and is given some credence as figures show that the number of people on benefits increases when benefit payments rise (Gregory and Paterson, 1983). The same authors found that this increase comes primarily from the number of people already unemployed who take up benefits, rather than people choosing to become unemployed. The disincentive effects of the levels of unemployment benefits on employment have been investigated by a number of researchers (Stricker and Sheehan, 1978; Blandy, 1979; Gregory and Duncan, 1980; Harper, 1980; McMahon and Ramasamy, 1980; McMahon and Robinson, 1981; Paterson and McKay, 1982; Gregory and Paterson, 1983; Miller and Volker, 1983; Trivedi and

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Kapuscinski, 1985; and Bradbury and Vipond, 1986). In reviewing the more recent of these studies (1983 onwards) Bradbury found that

None of the individual studies which have attempted to estimate the work incentive associated with unemployment benefits have been able to produce definitive results. However, the weight of evidence of studies carried out in Australia (and in the U.K., which has a similar benefit system) suggests that benefit levels do affect labour market behaviour, but not by much. The importance of these effects for the efficient operation of the labour market vary greatly depending upon the state of overall labour demand. (Bradbury, 1987 p.14)

On the other hand, Gordon Ternowetsky in his research into poverty and income maintenance found that

Over the course of the income maintenance program the desire to work, in lieu of accepting welfare payments, increased for men. There was no support for the work-disincentive effect that supposedly accrues through income maintenance. (Ternowetsky, 1980, p.159)

Income maintenance, in particular the payment of unemployment benefits, will continue to be necessary for the alleviation of poverty while unemployment remains in its present distribution in the population.

#### 1.7 Summary

This chapter has concentrated on a number of themes within the literature on poverty and unemployment which have appeared since the mid seventies. The works we have examined come from a variety of sources, written by economists, policy analysts, welfare workers, politicians and others, demonstrating the increasing recognition and concern about the problems of poverty among unemployed people and their families even though the response has been insufficient to remove the problems themselves. Poverty in the sixties and early seventies was a problem associated with 'disabilities' among which unemployment accounted for only a small part. The literature we have reviewed is concerned with the way in which the increase in unemployment, and in particular the increase in the duration of spells of unemployment for individuals, have become major factors contributing to poverty.

The first general point which emerges relates to the continuing importance of the Henderson poverty line despite all the criticism levelled at it. It has provided not only a stimulus for research and data collection, but a focus for data interpretation, providing a reference scale against which other assumptions, definitions and measurement techniques can be tested. Its substantial history gives it a unique longitudinal significance in evaluating the changes which have occurred since its first application in the mid sixties.

Repeated studies, both those based on analyses of statistics relating to the workforce as a whole and those based on smaller-scale inquiries, underline the general association between poverty and unemployment. Also documented is evidence of the way in which the least skilled and most vulnerable sections of the workforce are those who suffer most from unemployment. Their spouses and work-age children are also more likely to be unemployed and the increase in long-term unemployment affects these families disproportionately.

A further theme from the literature is the inadequacy of the level of unemployment benefits. The unemployed poor experience a number of recurrent problems including those associated with the provision of basic services such as housing. In addition the combined effect of the means test and the taxation system has created a double bind situation which has made it very difficult for the unemployed to escape from poverty by taking advantage of the limited work opportunities available. While there is some evidence of work-shyness, it contributes only a trivial amount to unemployment figures and the cost of benefits.

The association between poverty and unemployment demonstrated in the studies described here was a particular concern to the Hawke government in its early budgets. Policies then emphasised the need to increase employment. More recently, with a worsening economic environment, the government has turned its attention to the social security system itself, with the claim that fraud and cheating have contributed towards the increases in expenditure. Income support for the genuinely unemployed (except for the young) remains basically unchanged and, since unemployment is still very high, the problems described in the literature continue to be very important.



## PART 2

### A STATISTICAL ANALYSIS OF POVERTY AMONG PEOPLE IN THE WORKFORCE IN 1981-82

#### 2.1 Methods of Identifying the Workforce and Measuring Poverty

As the literature review has shown, the impact upon living standards of the rise in unemployment in the mid 1970s has not been fully investigated. While small scale studies provide a vivid illustration of life on unemployment benefits, the larger picture is still obscure. Is R.E. Smith (1985) correct in arguing that the link between poverty and unemployment has been overestimated while other associations with poverty have been ignored? This part of the report attempts to analyse this issue by providing detailed statistics on the incidence of poverty among people in the workforce in Australia in 1981-82 according to the nature of their labour market activity.

As mentioned earlier, the source of data is the unit records of the **Income and Housing Survey 1981-82**. This survey, conducted by the Australian Bureau of Statistics, questioned fifteen thousand households about, among other things, their work and their incomes. The data provide a means to accurate statistical estimation of poverty in a **limited** way. We can measure the proportion of the workforce whose annual incomes, for themselves and dependants, were below the poverty line. We do not know, however, how many people who were poor in 1981-82 had also been in poverty in earlier years. We know nothing about the wealth or the debts of the people in the survey. Statistics on their sources and levels of incomes, their employment, unemployment and occupations were the focus of the survey. These limitations must be remembered when using the results presented below.

Measuring aggregate poverty in the workforce is difficult partly because poverty is defined as a situation in which family needs are greater than family incomes, whereas in the labour market people operate as individuals. In this study it was necessary to focus upon individuals in order to link poverty with the main workforce trends - particularly the growth in unemployment, part time employment and self employment. A two stage process was adopted in order to measure the interrelationships between the way the labour market affected individuals and the poverty experienced by both workers and their dependants.

We first defined the extent of intra-family sharing of incomes and living costs in the population of workforce age and then, secondly, identified the families who relied upon workforce activity rather than other sources for their incomes. The statistical nature of this study meant that clear definitions had to be adopted at each stage even at the cost of being arbitrary. Consequently, the resulting statistical estimates of poverty depend upon the initial assumptions. Although every attempt was made to be realistic in our methods of analysis, the estimates are approximate rather than precise. Because we relied on a large scale sample survey which measured incomes and family sizes without any detailed qualifying information as to individual's circumstances, we may have overestimated some families' experience of poverty and we may have neglected that of others.

In the first stage of identifying the population to be studied, we used similar assumptions about dependency within families as the Commission of Inquiry into Poverty. We assumed that the only form of dependency which could clearly be relied upon was that between a husband and wife and their children who were either aged under 15 or aged less than 21 and in full time education. We assumed that the incomes of husbands and wives were aggregated and shared to meet their joint needs plus those of their dependent children<sup>1</sup>. We refer to the unit in which incomes are aggregated as an income unit. Children were treated as independent when they ended full time education, reached 21 years of age, or were married. Thus, in this study, a household consisting of a married couple plus one working child and one unemployed child would be counted as three income units. An income unit may take one of four forms. It may be a single individual, a married couple (including *de facto*), a sole parent with dependants or a married couple with their dependants.

As we were interested in workforce activity, we analysed the population in which the heads of income units were aged less than 65 years. To simplify the presentation, we did not exclude women heads aged more than 60 years, despite the fact that women usually retire at an earlier age than men. The total working age population was classified into one of the four classes of income unit.

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1. Because of data limitations, any incomes of the dependent children were not included.

Not all income units rely upon workforce activity for their incomes. Property ownership, gifts from relatives and social welfare are alternative sources. Workforce activity cannot, however, be defined according to income sources since many unemployed people rely upon unemployment benefits yet they are clearly part of the labour force. In this study, we defined workforce activity as any of the following three states - being employed, being self employed (including employers) or looking for work. (Respondents to the survey had recorded the number of weeks during 1981/82 in which they had looked for work while not in work.) Income units which contained at least one member who was engaged in workforce activity for the fifty two weeks of 1981-82 were classified as being in the workforce.

It was necessary to restrict our study to include only those people who had spent the full year in the workforce because we used a poverty line based on annual and not weekly income. Unfortunately, this meant that we also had to exclude those income units whose attachment to the labour force may have been marginal. Such income units may well have had a high probability of being in poverty. It is impossible in statistical analyses such as this, however, to determine whether low incomes among them are due to the nature of their workforce experiences or to their other activities.

Among couples, there were many cases with two members in the workforce. Although we could aggregate their incomes and compare the result with the relevant poverty line for their family size, we could not sensibly aggregate their labour market activity. Some worked full time, some part time, some part year. Some had been unemployed, others had not. As we could not aggregate the total workforce activity, we identified in each couple that person who was the main labour force participant. The identification was made on the basis of who had the greater number of weeks of full time employment during the year. In cases where both partners worked equal numbers of weeks full time, the head was defined as the main participant. The Australian Bureau of Statistics defines the head as male.

The rather complicated process described above identified income units that were in the labour force, i.e. all those with at least one member involved in workforce activity throughout 1981-82. It allowed us to measure the incidence of poverty among these people according to the nature of each



main worker's workforce experience during that year. As we have noted, the analysis does not cover all workers. That is because our interest focuses upon the degree to which the labour market permitted the main worker in each income unit in the study population to provide adequately for himself or herself plus any dependants. In answering this question we took as given the income available to each income unit from sources other than the main worker's activities. Such income could be derived from many sources including spouses' earnings. These supplements to the total incomes of income units were not our first concern. The question we wished to answer was how many employers, self employed and workers (employed or unemployed) failed to earn enough, in addition to their other income, to provide the poverty line income for themselves and dependants. After we had analysed poverty in this way, we considered the role of spouses' earnings. We then estimated, among income units whose main worker had been fully employed during 1981-82, the extent to which the incidence of poverty would have increased had there been no secondary employment in the family.

We measured both the number and proportion of income units that had incomes below the poverty line. We refer to the proportion below as the incidence of poverty. As we shall show, it varied considerably among people who were in the workforce. In making these estimates, procedures established by the Commission of Inquiry into Poverty (1975, Appendix F) were followed. Henderson's simplified rather than his detailed equivalence scale was applied to his standard poverty line to determine the relevant poverty line income for income units that were of different sizes.<sup>2</sup> This choice was made because one of our interests lay in the comparative workforce experience of men and women and their relative incidence of poverty. The simplified scale assumes that men and women have the same living costs. In this context, this seems more appropriate than the lower living costs of women which are implied in the detailed equivalence scale.

Since the Commission of Inquiry into Poverty, the actual value of the poverty line has been updated to take into account **both** increases in prices and economic growth in the community. The method of updating creates two

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2. This equivalence scale also takes account of the additional costs faced by households with members in employment or searching for jobs. For our 'study population' we used the higher 'head working' poverty line.

problems, one fundamental and the other technical, that require acknowledgement.

The fundamental issue is whether poverty should be measured in absolute terms or, as recommended by the Commission of Inquiry into Poverty, relative to the general community living standards. This topic has been the subject of much debate both here and overseas (see references, p.11). In this study, as in other work at the Social Welfare Research Centre, we have adopted the relative approach as embodied in the Henderson poverty line and equivalences, in accordance with the reasons advanced in Part 1 of this study (p.11)

In recognition, however, of some criticisms of the use of the Henderson poverty line (Gruen, 1987), it is noted that the poverty line used in this study was nine per cent greater in real terms than the original poverty line for 1973 that was established by the Commission of Inquiry into Poverty<sup>3</sup>.

The updating of the poverty line also creates technical problems. The poverty line for a standard family of a couple plus two dependent children is now set at 129 per cent of Household Disposable Income Per Capita. Household Disposable Income is measured in the national accounts and these are subject to frequent revisions. Its value and thus that of the poverty line is sometimes raised and sometimes lowered by these statistical revisions. Usually, it is expected that national accounts statistics become more accurate the longer the time from the year of measurement because with time more detailed data become available. Eventually revisions cease and final values are recorded for the components of the national accounts. Consequently, the Social Welfare Research Centre has always used the most recent estimates of the national accounts in its work. Several different poverty estimates for 1981-82 have been made using different versions of the national accounts for that year. As this may cause confusion, Appendix A of this report provides a guide to published SWRC poverty estimates and to the different levels of the poverty line for 1981-82 that have been used. It shows that the poverty line currently regarded as the most accurate measure for 1981-82 is at a low level compared with some earlier estimates and that

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3. This is because community incomes (measured as household disposable income per capita) have increased faster than prices over this period. As of March 1987 the poverty line was 15 per cent higher in real terms than in 1973. Source: IAESR, 1987 and ABS Time Series Data on Microfiche (Cat.No.1311.0).

TABLE 2.1: THE INCIDENCE OF POVERTY AMONG THE AUSTRALIAN POPULATION OF WORKING AGE AND AMONG THE STUDY POPULATION, 1981-82

| Income Unit Type          | Incidence of poverty in the Australian <sup>1</sup> Working-age population % | Incidence of poverty in the study population % | Poverty of Study Population as share of poverty of total Working-age population % |
|---------------------------|--|--|---|
| Couple without dependants | 4.3  | 3.0  | 53.4  |
| Couple with dependants    | 9.4  | 8.0  | 74.5  |
| Single parent M           | 13.6   | 13.1   | 70.2  |
| Single parent F           | 37.8   | 19.7   | 15.1  |
| Person 15-25 M            | 13.5   | 10.2   | 56.1  |
| Person 15-25 F            | 15.6   | 11.2   | 53.6  |
| Person 25-64 M            | 11.0   | 9.0  | 59.3  |
| Person 25-64 F            | 12.1   | 6.6  | 26.9  |
| Total                     | 11.2   | 7.8  | 52.8  |

**Note:** 1. For definitions see Appendix B, Table B.1.

**Source:** Appendix B, Table B.1.

consequently measurements of poverty are relatively low. The differences are a reminder that all measurements in this report are subject to errors and to possible revisions.

## 2.2 Estimates of Poverty: by Age and by Family Structures

About three quarters of the Australian population of workforce age depend upon workforce activity. They form our study population. The incidence of poverty among them and among all income units of working age is shown in the first two columns of Table 2.1. The share of the total poverty of the population of working age which was experienced by income units attached to the workforce is shown in the final column of the table. The numbers of income units in poverty and in each population are shown in Table B.1, in Appendix B.

As one would expect, because people who are not labour force participants are mainly dependent upon social welfare payments, poverty among the study population was **less** than among all Australians of the same age. Among income units that had at least one member in the workforce, 7.8 per cent had incomes below the poverty line in 1981-82. In the wider population, the incidence of poverty was 11.2 per cent. While this difference highlights the importance of workforce activity in preventing poverty, nevertheless, among all income units of working age slightly more than half of those who were in poverty (52.8%) were attached to the workforce (Table 2.1).

Within the study population, the incidence of poverty varied quite markedly, illustrating the ways in which family size determines the level of income required to avoid poverty and how the sex of the head and the number of workers affects the earning capacity of the income unit.

Couples without dependants tended to be less likely to live in poverty than single people. Among couples without dependants the incidence of poverty in our study population was 3.0 per cent and among the total population of working age, it was 4.3 per cent. Among young singles in the study population, poverty was higher and at approximately the same level for males and females (10.2% and 11.2%). An unexpected result in Table 2.1 was the relatively low incidence of poverty among single working women aged 25-64 (6.6%) compared with that of single working men in the same age group (9.0%).

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To anticipate the discussion below, this pattern was partly due to the higher proportion of males in this group who were self-employed (Table 2.3). Within the wage and salary earners, there was negligible difference between the sexes in this age group.

Recently, child poverty has been the focus of much concern (Cass, 1983 and 1986; Harding, 1986; Saunders, 1980; Whiteford, 1986; Saunders and Whiteford, 1987). Workforce participation is particularly important in relation to this issue because almost 88 per cent of couples with dependants were in the workforce in 1981-82 (Appendix B, Table B.1). Although the incidence of poverty among them was not exceptionally high at 8.0 per cent, it was slightly above the level for the workforce as a whole (7.8 per cent). The study population contained 75 per cent of all couples with dependants who lived in poverty. Since the study population included couples who were employed, unemployed, working part time or were self employed, these figures show the crucial importance of the state of the economy to the well-being of children.

The high incidence of poverty among single parents is now well known, and is closely linked with the increase in the numbers of children in poverty (Cass and O'Loughlin, 1984; Grace and Johnston, 1986; McClelland and Trethewey, 1987; Robinson and Griffiths, 1986; Sackville, 1972; Social Welfare Commission, 1976).

The detailed data in Appendix B Table B.1 show the extent to which single mothers rather than single fathers are in poverty. In addition, they reveal the importance of being in the workforce for all single parents. Of all 275,200 sole parents, only 14 per cent were males, and only 35 per cent were in the workforce. Among the labour force participants, however, 28 per cent were men. These differential participation rates are a main explanation of why 37.8 per cent of all female sole parents lived in poverty in 1981-82 whereas the incidence of poverty among all male sole parents was 13.6 per cent. In the study population, the difference was much narrower. Among male sole parents who had 52 week workforce participation in 1981-82, the incidence of poverty was 13.1 per cent: among females who were full year in the workforce the level of poverty was 19.7 per cent (Table 2.1).

Workforce participation is thus an important issue in our understanding of the causes of poverty among all children in Australia, both the children of two parent families and the children of sole parents. Moreover, differential workforce participation is a key to understanding the greater extent of poverty among women than men. Among all working age Australians who were not living as couples, the incidence of poverty was higher for females than for males whether they were sole parents (males 13.6% vs females 37.8%) or young singles (13.5% vs 15.6%) or of prime working age (11.0% vs 12.1%). Among men and women in the workforce the differences in the incidence of poverty were substantially less and, as we have noted among single people in the study population, men aged 25 to 64 years experienced more poverty than women of this age group.

### **2.3 Unemployment and Part Time Employment and their Association with Poverty**

One of the main features of labour markets in recent years is the extent to which they have failed to offer adequate employment opportunities. Vacancies have been much scarcer than the number of people searching for jobs. Unemployment has been high. This section will analyse levels of poverty according to whether the main workers were employed full year and/or full time. As noted earlier, it is difficult to analyse the workforce experience of subsidiary workers: for the purposes of estimating poverty among income units in the workforce, the main labour force participant had to be the first focus of attention.

Among the income units which included workers who experienced some unemployment in 1981-82, one may expect to find a high incidence of poverty. One can have no such clear cut expectations about part time workers. Some part time jobs are taken as a first choice while others are accepted as being better than unemployment but not as good as full time work. Growth in part time employment has represented one of the main structural changes in the labour market. Between 1966 and 1984, part time employment grew by 142 per cent whereas full time employment rose by only 22 per cent. By 1984, 18 per cent of all employed persons worked part time compared with only 10 per cent in 1966. For many workers, part time jobs suit their needs in terms of how they wish to distribute their time between work, leisure and home duties. For some, however, such work may really be disguised unemployment. They feel

TABLE 2.2: STUDY POPULATION: THE INCIDENCE OF POVERTY ACCORDING TO THE EMPLOYMENT STATUS OF THE MAIN WORKER, 1981-82

| Income<br>Unit<br>Type    | Mainly<br>full time<br>no un-<br>employment | Mainly<br>full time<br>some un-<br>employment | Mainly<br>part time,<br>no un-<br>employment | Mainly<br>part time,<br>some un-<br>employment | Total |
|---------------------------|---|---|--|--|-------|
|                           | %   | %   | Incidence of poverty                         |  | %     |
|                           |   |   | %  | %  |       |
| Couple                    | 2.2   | 18.5  | (6.5)  | (30.5)   | 3.0   |
| Couple with<br>dependants | 5.5   | 36.3  | (25.3)                                       | 46.6   | 8.0   |
| Single parent             |   |   |  |  |       |
| M                         | (7.4)                                       | (55.5)  | (0.0)  | (0.0)  | 13.1  |
| F                         | (5.0)                                       | 58.5  | (14.4)                                       | (68.9)   | 19.7  |
| Person 15-24              |   |   |  |  |       |
| M                         | 1.9   | 36.3  | 31.7   | (30.1)   | 10.2  |
| F                         | (0.6)                                       | 38.0  | 21.2   | 29.4   | 11.2  |
| Person 25-64              |   |   |  |  |       |
| M                         | 2.9   | 36.5  | (21.2)                                       | 70.2   | 9.0   |
| F                         | (1.2)                                       | 40.6  | (7.5)  | 42.3   | 6.6   |
| Total                     | 3.6   | 36.4  | 16.7   | 42.3   | 7.8   |

**Notes:** Bracketted figures are estimates with approximate relative standard errors greater than one third.

**Source:** Appendix B, Table B.2.

themselves to be underemployed. Since 1978, the Australian Bureau of Statistics has surveyed part time workers to find out whether they would prefer to work more hours. Throughout the period since 1978, men who worked part time have been much more likely than women part time workers to want more work and to be searching for full time work. During the period, there has been a tendency for part time workers of both sexes to increasingly seek work involving longer hours<sup>4</sup>.

The purpose of the statistical analysis in this section is to measure not only the association between unemployment and poverty but also that between part time employment and poverty. The statistical data are listed in Table 2.2 which shows, for each family structure, the incidence of poverty according to whether the main worker in each unit had been unemployed or not and whether he or she mainly worked full time or part time.<sup>5</sup> The numbers of income units in each category are listed in Appendix B, Table B.2.

The main finding illustrated by the data in Table 2.2 is a confirmation of the importance of the link between unemployment and poverty which was revealed in the literature review of Part 1 of this report. The association between unemployment and poverty is much more important than that between part time employment and poverty. Among income units that avoided the unemployment of the main worker in 1981-82, the incidence of poverty was 3.6 per cent among full time workers and 16.7 per cent among part timers. When the main worker had been unemployed for one or more weeks during 1981-82, the incidence of poverty was 36.4 per cent for full time workers and 42.3 per cent for part time workers.

These levels of poverty among unemployed people are higher than others that have been published because they reflect poverty among income units where the **main** worker had experienced unemployment. Among all income units

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4. Australian Bureau of Statistics, (1987) **The Labour Force Australia, Historical Summary 1966 to 1984**, Cat.No. 6204.0. Table 16 pp.143-6.

5. Workers were defined as having experienced unemployment if they had been looking for work (whilst not working) at any time during the year. This definition is broader than the standard ABS definition of unemployment which is based upon specific questions of level of job search activity and availability to start work. It is not possible to obtain such detail retrospectively. People were defined as mainly full time if they worked more weeks during the year full time (35 hours or more) than part time.



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who had some unemployment during 1981-82, 31.8 per cent lived in poverty (Vipond, Bradbury and Encel, 1987, Table 2.1)<sup>6</sup>. Other things being equal, there is a greater risk of poverty when the main or the sole breadwinner is unemployed than when other family members are out of work.

The most common family type listed in Table 2.2 is couples with dependants. As we have noted, their poverty is a major contributor to the total level of poverty among children in Australia. Among this family type, part time employment of the main worker was uncommon. Poverty among all families with two parents was at a moderate level. There were estimated to be 137,000 of them living below the poverty line (Appendix B, Table B.2). From these data, it can be calculated that 32 per cent of them depended upon full time workers who had been unemployed. Despite the low **incidence** of poverty in cases where the main worker was employed full time and had not been unemployed (5.5 per cent), these families comprised 64 per cent of all two parent families with children who were in poverty. The remaining four per cent depended on a part time worker.

Unemployment rates have been very high among young people for a long time. The effect on their living standards is shown in Table 2.2 in that the incidence of poverty among young people who had been unemployed was 30 per cent or more. Considering only income units in which the young single person worked full time and where he or she had been unemployed these young men and women comprised 71,200 income units making up 39 per cent of the 168,400 income units who were in poverty and who had experienced unemployment (Appendix B, Table B.2).

The incidence of poverty among part time workers who had not been unemployed was high among young single people (31.7% among males and 21.2% among females, Table 2.2). Among other age groups, the incidence was either low or the cases were so few that the result was statistically insignificant. Among part timers who had been unemployed, poverty was high. Overall, however, the total number of income units dependent on a part time worker who were in poverty was quite small: only 16,300 (who had been unemployed) plus

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6. This estimate was based on a higher poverty line for 1981-82 than that used here. See Appendix A.

14,900 (who had not been unemployed) out of the total of 330,300 income units in poverty.

Of the 330,300 income units of the study population who were in poverty, 184,700 (56%) had reported some period of unemployment during the year (Appendix B, Table B.2). Five per cent depended on part time workers who had not been unemployed. The remaining 39 per cent were employed full time for the full year. Their poverty is explored in more detail in the next section.

## 2.4 Poverty Among Employed People

The previous section has shown that the literature has been correct to emphasise the link between unemployment and poverty. Yet, as noted, much poverty remains unexplained. Many income units with a member fully employed in 1981-82 did not earn adequate incomes. This section considers the nature of employment of these income units, comparing poverty levels both by employment status and by family structure.

One way of classifying types of employment is to divide the self employed from those who earn wages and salaries. This division emphasises a difference in employment conditions, especially in Australia where wage earners are highly unionised and wage bargaining is centralised. The classification is also useful because it highlights a structural change that is occurring in the labour market. Self employment is growing relative to paid employment (see Figure 3.3 below). Some debate has accompanied this change (Covick, 1984; Norris, 1986), particularly as to whether people have been attracted into self employment by the rewards it offers or whether they have accepted it as a refuge from unemployment. An analysis of poverty among self employed people, as well as being interesting in itself, may throw some light on this issue.

The identification of those in the study population who were fully employed in 1981-82 according to whether they were wage and salary earners or self employed was made on the assumption that for these people employment status at the time of the Income and Housing Survey 1981-82 (i.e. September

**TABLE 2.3: INCOME UNITS WITH AT LEAST ONE FULLY EMPLOYED WORKER :  
INCIDENCE OF POVERTY BY EMPLOYMENT STATUS, 1981-82**

| Income<br>Unit<br>Type    | Employment Status of Fully Employed Worker <sup>1</sup> |                              |                       |
|---------------------------|---|------------------------------|-----------------------|
|                           | Wage and Salary<br>Earners                              | Self-employed <sup>(2)</sup> | Total<br>W&S and S.E. |
|                           | Incidence of poverty <sup>(3)</sup>                     |                              |                       |
|                           | %   | %                            | %                     |
| Couple without dependants | (0.0)   | 10.0                         | 2.1                   |
| Couple with dependants    | 1.1   | 17.9                         | 5.0                   |
| Single parent M           | (1.2)   | (41.1)                       | (7.8)                 |
| F                         | (1.7)   | (62.9)                       | (5.3)                 |
| Person 15-24 M            | 1.0   | 14.0                         | 1.8                   |
| F                         | (0.3)   | (9.8)                        | (0.4)                 |
| Person 25-64 M            | (0.3)   | 14.0                         | 2.6                   |
| F                         | (0.4)   | (18.7)                       | (1.1)                 |
| TOTAL                     | 0.7   | 15.7                         | 3.3                   |

**Notes:** (1) Employed full time for all of 1981/82 and employed at time of survey.

(2) Includes employers.

(3) Bracketted figures have relative standard errors greater than one third.

**Source:** Appendix B, Table B.3.

to November 1982) was the same as it had been in the previous fiscal year.<sup>7</sup> Having classified this part of the study population, we then estimated the incidence of poverty according to the two types of employment and to the family structures of the income units. The results are presented in Table 2.3.

The difference in poverty between self employed people and wage and salary earners in 1981-82 was extreme. On average, less than one per cent (0.7%) of fully employed wage and salary earners received incomes less than the poverty line, yet 15.7 per cent of the self employed were in poverty. Thus, the low incidence of poverty among all of those who were employed full time over the whole year (3.3%) masks an apparently serious problem. Moreover, although for each income unit type the poverty of the self employed exceeded that of the wage and salary earner, the difference was particularly large and statistically significant in the case of couples with dependants. Indeed, of the 94,100 self employed income units living in poverty, 63,200 were couples with dependants (Appendix B, Table B.3). Poverty among self employed people appears to have been a serious problem, not only for the workers themselves but also because many of them had dependants.

How are we to interpret these results? Our interest focuses on the labour market experience of the main worker in each unit. We wish to know whether the differences in poverty can be ascribed to differences in employment status. An alternative cause could be that among couples, the labour force participation of the wife<sup>8</sup> was on average higher among wage and salary earners than among the self employed. If this were so, then on average the 'other income' of the unit would have been higher among the wage and salary earners and they would have had to earn less than the self employed in order to reach the poverty line. Recourse to the data showed that this hypotheses could be rejected. Among wage and salary earners who lived in poverty, wives' average labour force participation rate was 31 per cent while among the self employed it was 65 per cent. Possibly, this difference can be accounted for by the predominance of larger families among

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7. The survey asked questions about **current** self-employment status but not **annual** self-employment. Employers have been included with the self employed.

8. The term wife is used loosely to describe the subsidiary worker in income units that comprised a couple plus dependants.

the workers who lived in poverty - 69 per cent had three or more children whereas among the self employed the proportion was 44 per cent. The larger family size implies that the income required to reach the poverty line was higher among wage and salary earners. They would have had to earn more to avoid poverty yet in fact fewer of them were in poverty. It appears, therefore, that the higher poverty of the self employed reflected their low incomes rather than that their needs were particularly great or that they had less supplementary income from wives' earnings.

A further question must be asked, however, before accepting these marked variations in poverty among fully employed people. Is the method of income measurement used by the **Income and Housing Survey** appropriate for measuring welfare levels among the self employed? Of particular relevance here is the issue of rural poverty. The Commission of Inquiry into Poverty (1975) did not include poverty among farmers when estimating the incidence of poverty in Australia. It was suggested that taxable income is an inaccurate guide to the disposable income available to farmers and their wealth may be as relevant to their living standards as is their income. These suggestions appear equally valid in 1981-82 when among the 94,100 self employed income units that lived below the poverty line, 42 per cent were employed in primary industry.

It is difficult to assess the implications for living standards among farmers of having low incomes in a single year. Weather conditions and price changes mean that some seasons are good and others are bad. It is questionable whether the effect of bad seasons should be treated as the equivalent of having low incomes among the urban population. Among the urban poor, few have wealth. Among people in rural areas, land ownership may provide the wealth that permits borrowing against low earnings in a bad season. As a result, living standards may fluctuate less than incomes. However a series of bad seasons, and changes in farming practice which have led to the need for more capital and less labour, may be leading to increased poverty, especially among the people who live in the centres which service rural areas.

The delicate balance between rural sector income and the growth or decay of small country towns has always been obvious, but its consequences have never been planned for, or appreciated, by decision-makers. (McKenzie, 1984, p.15)

The Commission of Inquiry into Poverty also excluded other self employed people from the bulk of its analysis, arguing that 'Businessmen are often able to reduce their taxable income much more easily than wage earners' (Henderson, 1975, p.27). The Commission did, however, report a measured incidence of poverty for (non-farm) self employed, estimating that 5.1 per cent were in poverty as measured by their survey. This compared with 3.9 per cent of income units headed by wage earners who were measured as being in poverty. The situation of wage earners seems to have changed little. Their lower incidence of poverty in 1981-82 probably reflects definitional differences (Table 2.3 is restricted to those employed full time for the whole year). However the increase in the incidence of poverty among the self employed has been considerable. The exclusion of farmers from the population of Table 2.3 still leaves their incidence of poverty at 12.4 per cent. Have the self employed become poorer, or has income become an inappropriate method of measuring the sources of well-being for self employed people? This is a central question.

It is possible to gain some insight into this issue from data on housing expenditures collected in the **Income and Housing Survey**. Such expenditures can provide evidence of the broad economic resources available to families. The method used is described more fully in Appendix C. Essentially, the procedure involved estimating the relationship between income and housing expenditure for the whole population, then working backwards to determine the income that self employed people would have had to earn in order to spend as they did upon housing. The results indicated that on average the self employed were spending on housing as if they had incomes some \$12,000 per annum (for those without employees) or \$17,000 per annum (for those with employees) **greater** than measured by the survey. Further details by industry are described in Appendix C, together with a fuller discussion of the limitations of this analysis.

The results indicate that measuring reported incomes relative to a poverty line may be inappropriate in the case of self employed people. From the **Income and Housing Survey** we have information on only one form of expenditure. As we have shown, it was higher among self employed people than among wage and salary earners who had the same reported incomes. Possibly, other forms of expenditure than housing were also higher among the self

employed. If so, then those with incomes below the poverty line might not have standards of living that implied poverty.

The results imply only that we must question the suitability of the **Income and Housing Survey** for the analysis of self employed people. We cannot provide explanations for the differences in housing expenditures of wage and salary earners and the self employed. Our estimates refer to **average** incomes and **average** housing expenditures. We know nothing about the distribution of the housing expenditures. Nor do we know how they were financed. The implications are different if the higher expenditures resulted from dissaving by people whose businesses were unprofitable as compared with cases where reported taxable incomes were low because of very high gearing ratios applied to prosperous enterprises. Among the latter, growing capital worth could finance higher housing expenditures whereas among the former low incomes would be accompanied by declining wealth. Even in such cases, however, those who could finance additional consumption from wealth would be better off than those without any resources other than low current incomes. Such circumstances are typical among unemployed wage earners (see **Small Scale Studies**, Part 1 pp.20-6).

There is, therefore, contradictory evidence about the level of poverty among self employed people for which we do not have complete explanations. Certainly, using our methods, measured poverty among them was very high in 1981-82. However, much of this poverty was concentrated among farmers and we cannot with only one year's data distinguish long term poverty from a bad season. National accounts data show that 1981-82 was a year in which total farm income was relatively low compared with the years after 1983-84, though slightly higher than in the previous year. Other evidence indicated that housing expenditures among self employed people were much higher than those of wage and salary earners with the same income levels. As we have noted, this indicates that the **Income and Housing Survey** may not provide a reliable guide to the level of poverty among self employed people. Yet unless there have been massive changes in the relationships between measured incomes and total resources of the self employed since the early 70s, we can still conclude that the incidence of poverty among the self employed has increased substantially since then - whereas poverty declined among wage and salary earners.

## 2.5 Poverty and the Importance of a Second Income

In this part of the report we have concentrated on the employment experience of the main workers of the income units in the study population where we have, however, included in the incomes of families and couples, the secondary earnings of the spouse. We now turn our attention to the importance of such earnings and measure whether they were necessary for the avoidance of poverty. The issue is particularly interesting because among wage and salary earners who were not unemployed in 1981-82, poverty was rare and was lower than it had been in the early 1970s. We wish to know whether the increasing labour force participation of married women has been a factor in this achievement.

We have measured the incidence of poverty in 1981-82, among fully employed workers both when the market incomes of each spouse was included and excluded. Market incomes refer to income from wages and salaries, business income, dividends, rent, interest, etc. but exclude government pensions and family allowances. These estimates of poverty were made for couples with and without dependants where the main worker was employed and where he or she was self employed. The separation by employment status is continued because of the marked differences in poverty between these two categories and because of the different levels of labour force participation of wives of the self employed (noted in the previous section).

The analysis is now extended to encompass the two measures of poverty that were established by the Commission of Inquiry into Poverty. Poverty is estimated both before and after people have paid their individual housing costs.<sup>9</sup> Earlier work has shown that between 1972-73 and 1981-82 among the whole population of Australia, the incidence of poverty measured after people had paid for their housing increased much more rapidly than did poverty measured before housing costs. This difference was attributed partly to the shift in poverty from the elderly in the 1970s to people of working age in the 1980s (Bradbury, Rossiter and Vipond, 1986). As housing costs impose the greatest burdens during the working part of the life cycle it is useful to

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9. Before housing poverty measures the proportion of the relevant income units whose incomes were below the poverty line. After housing poverty measures the proportion whose incomes after they had paid for their housing were below the after-housing-cost poverty line.



TABLE 2.4: THE EFFECT OF THE MARKET INCOME OF THE SPOUSE ON THE LEVEL OF POVERTY AMONG EMPLOYED PEOPLE, 1981-82

| Married couple<br>income units<br>with at least<br>one fully em-<br>ployed worker | Including income of spouse |                         |       |                       |                         |       |
|---|----------------------------|-------------------------|-------|-----------------------|-------------------------|-------|
|   | Before-housing poverty     |                         |       | After-housing poverty |                         |       |
|   | W&S                        | Self-emp <sup>(2)</sup> | Total | W&S                   | Self-emp <sup>(2)</sup> | Total |
| Without dependants  | 0.0%                       | 10.0%                   | 2.1%  | 1.3%                  | 14.4%                   | 4.0%  |
| With dependants   | 1.1%                       | 17.9%                   | 5.0%  | 2.3%                  | 21.8%                   | 6.9%  |

| Married couple<br>income units<br>with at least<br>one fully em-<br>ployed worker | Excluding market income of spouse <sup>(3)</sup> |                         |       |                       |                         |       |
|---|--|-------------------------|-------|-----------------------|-------------------------|-------|
|   | Before-housing poverty                           |                         |       | After-housing poverty |                         |       |
|   | W&S  | Self-emp <sup>(2)</sup> | Total | W&S                   | Self-emp <sup>(2)</sup> | Total |
| Without dependants  | 0.8%   | 23.0%                   | 5.3%  | 2.4%                  | 25.1%                   | 6.9%  |
| With dependants   | 2.2%   | 38.7%                   | 10.7% | 4.4%                  | 40.4%                   | 12.8% |

- Notes:** (1) Employed full time for all of 1981-82 and employed at time of survey  
 (2) Includes employers  
 (3) And compared with the spouse-not-working poverty line.

**Source:** Australian Bureau of Statistics (1986), *Income and Housing Survey, 1981/82*, Unit Record File.

compare a measure of after housing poverty among fully employed people with their incidence of before housing poverty.

With this extension of the estimates of poverty, the analysis focuses on three issues: the differences between wage and salary earners and the self employed, the role of a second income in preventing poverty and the levels of poverty measured before and after housing costs.

The results show that when poverty was measured before housing costs, second incomes were not significant in explaining the low level of poverty among wage and salary earners in 1981-82 (Table 2.4). For example, among couples who had dependants, the before-housing incidence of poverty of wage and salary earners was 1.1 per cent when second incomes were included and 2.2 per cent when they were excluded. However, poverty would have been **much** higher among the self employed had spouse's market incomes not been included. The incidence would have risen from nearly 18 per cent to almost 39 per cent among couples with dependants. The same trends were found among couples without dependants.

Estimates of poverty measured after housing costs qualify these conclusions only to a small extent. Among wage and salary earners, spouse's earnings were quite important in preventing poverty after housing costs had been paid (Table 2.4). The difference made by spouse's earnings was not, however, such that levels of after-housing poverty among wage and salary earners reached the very high levels found among self employed people.

These figures confirm the conclusions of the previous section but also emphasise our earlier questions. If full year, full time employment for a wage or salary was achieved in 1981-82, the likelihood of poverty was very low. For this group, avoidance of poverty did not depend upon there being a second income. Among the self employed, poverty was very high and would have been much higher had there not been a second income in many income units. As in the previous section, it is difficult to interpret this finding because of the uncertainty as to whether reported incomes are an appropriate measure of the resources available to the self employed.

## 2.6 Conclusion

Detailed estimates of levels of poverty in 1981-82 confirm some of the arguments outlined in the literature review of Part 1 but they also expand our awareness of the scale of the social problems that flow on from the downturn in the economy in the mid 1970s.

As expected, unemployment was the labour market characteristic most clearly associated with poverty. Of all income units dependent upon full time workers who had experienced one or more weeks unemployment in 1981-82, 36.4 per cent had annual incomes below the poverty line.

In general, the Australian literature has not pointed to low wages or part time work as being associated with poverty. The second assumption can be questioned since in 1981-82, the incidence of poverty among part time workers who had not been unemployed during the year was 16.7 per cent. The first assumption, however, seems to be confirmed. Among workers who earned wages and salaries and who were not unemployed either during 1981-82 or when surveyed between September and November 1982, the incidence of poverty was 0.7 per cent. Between 1972-73 and 1981-82, poverty among wage and salary earners who were fully employed had declined. This could not be ascribed to an increase in the proportion of married women at work.

Poverty among self employed people in 1981-82 was unexpectedly high. Its incidence was 15.7 per cent. Self employed people and their dependants formed 83 per cent of all income units who were fully employed over the year and whose incomes fell below the poverty line. Tests of the data suggested that incomes may not be an accurate guide to the level of resources available to self employed people. Nevertheless, their measured poverty was so great, and so much increased from the early 1970s, that it seems that the poverty associated with the recession of the late 1970s was not entirely borne by unemployed people. It appears that there were many people who were self employed but who could not earn adequate incomes relative to the needs of themselves and their dependants.

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### **PART 3**

#### **WORKFORCE TRENDS IN THE 1980S AND THEIR POLICY IMPLICATIONS**

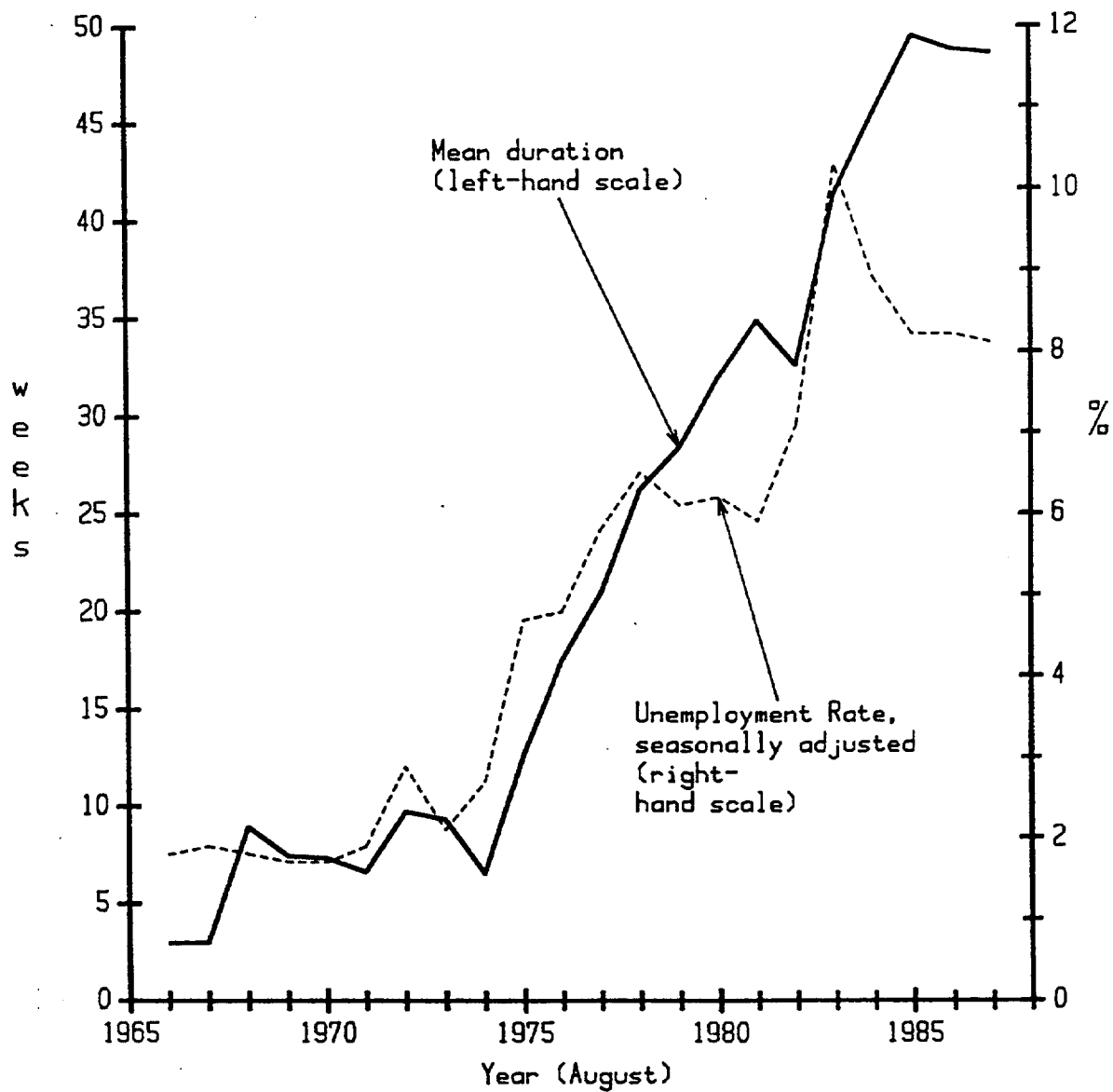
In Australia as in other industrialised countries, the emergence of mass unemployment in the mid 1970s was unexpected, following, as it did, the buoyant economic conditions which had characterised the period from the end of the Second World War. As we have shown in Part 1 of this report, the latter half of the 1970s saw increasing recognition of the social problems caused by the new conditions.

The year 1981-82 is the latest for which detailed data on incomes and workforce activity are available. These data were used in Part 2 to provide estimates of poverty among people in the workforce. They provided substantial supporting evidence for what is now the conventional wisdom - unemployment was, and is, a major cause of poverty. Less to be expected was that unemployment could not explain all of the poverty among people in the workforce. There was also a very high incidence of poverty among self employed people. In 1981-82 much of it was concentrated among farmers and may have reflected seasonal conditions which were not good during this year. Moreover, there is reason to think that some self employed people had resources in addition to their current incomes. The survey data indicated that average housing expenditures of self employed people were much higher than were those of wage and salary earners with similar incomes. Nevertheless the scale of poverty among the self employed should not be ignored.

The statistics of Part 2 showed that wage and salary earners who retained full time jobs were well protected during the late 70s recession. Poverty among them was very low, lower than it had been in 1972-73. It seems that the problem of the poverty in the workforce was primarily confined to those people in the workforce who had experienced unemployment or who were self employed.

In the years since 1981-82, there has been a further significant worsening in employment opportunities. As a result, increasing emphasis has been placed on the policy implications of this trend. Significant changes

Figure 3.1 The Mean Duration of Unemployment and the Unemployment Rate, 1966 to 1987



Source: A.B.S. The Labour Force, (various years)  
Cat. Nos. 6204.0 and 6203.0

have been made in macroeconomic policies though these have also, of course, had to respond to movements in national and international economic forces. The whole social security system has been made subject of a review, at least in part because of the shifts in the incidence of poverty caused by economic change. Initiatives in job creation schemes, in job training and in income support have been made. In this final part of the report, an attempt will be made to provide a summary of the main trends in the labour market and in policy responses. In this way, we may **qualitatively** update our assessment of the extent of poverty in the workforce.

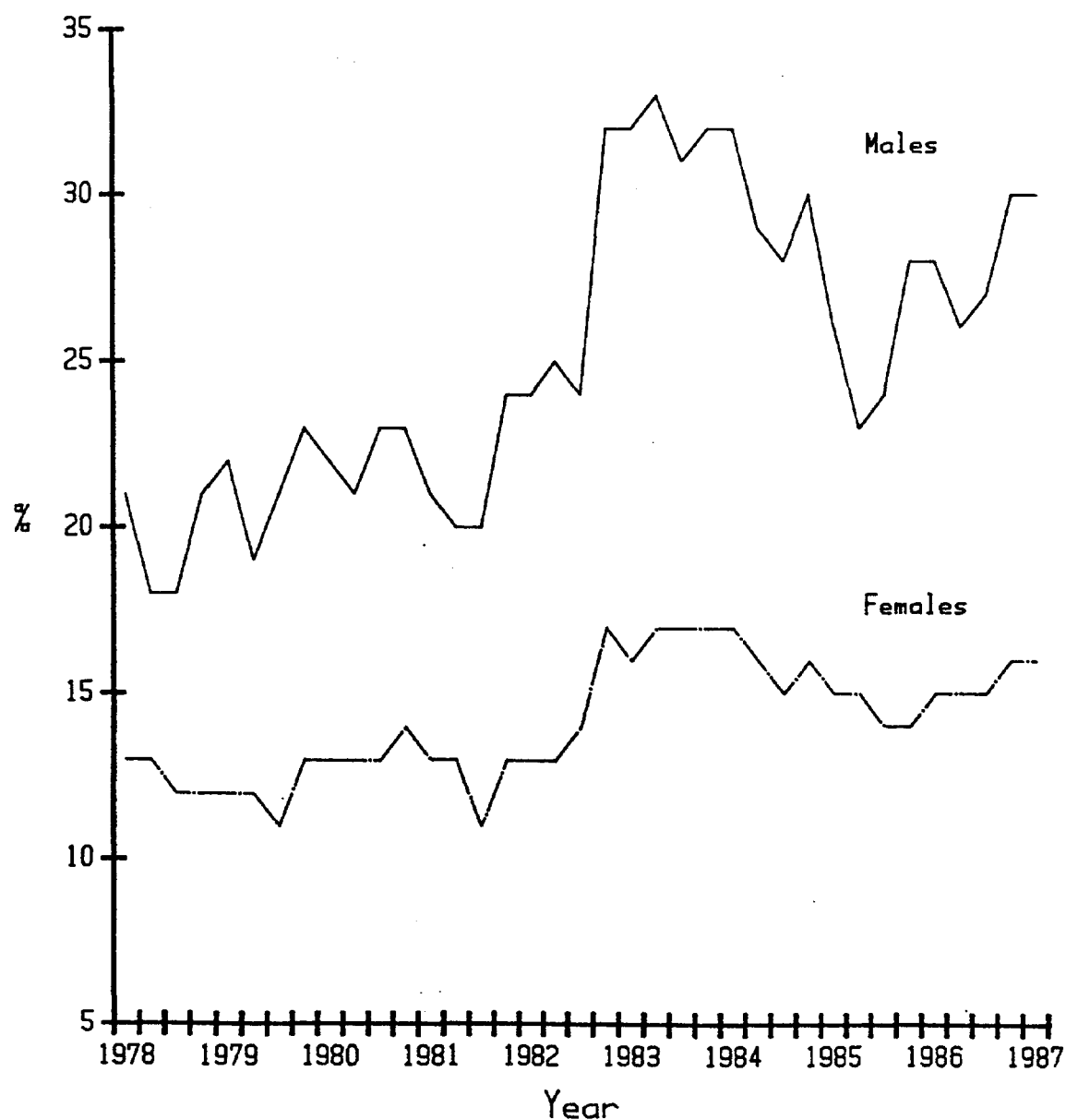
We begin by analysing labour market trends and macroeconomic policy responses. We then turn to labour market programs and changes in the social security system. In conjunction with the last issue, we shall look at public attitudes to the problem of unemployment and to unemployed people. Since each of these issues could be a major field of inquiry in itself, only key trends will be identified. The aim is to look for the links between the labour market and its social consequences in terms of its ability to provide adequate living standards for all people dependent on workforce activity.

### 3.1 Labour Market Trends in the 1980s

Labour market trends since 1973 can be briefly summarised by pointing to the doubling of unemployment on two occasions. In February 1974, the national unemployment rate of persons seeking full time or part time work was 2.1 per cent; a year later it was 4.8 per cent. The second recession of the decade was rather more prolonged. In May 1981, the national unemployment rate was 5.6 per cent, two years later it had reached its peak to date (1987) of 10.3 per cent. In between these two periods of recession, however, unemployment rates recovered hardly at all. Moreover, the average duration of unemployment steadily increased except when rapidly rising unemployment caused many new people to enter the pool of unemployment within a few months as occurred in 1974 and 1982 (Figure 3.1).

Unemployment fell more rapidly after the later than the earlier recession. There was a one per cent decrease each year from May 1983 to May 1985 - to an unemployment rate of 8.4 per cent. During 1986 and 1987, however, the unemployment rate has barely changed. We seem to be back in the malaise of the late 1970s but at a rate of unemployment of 8 per cent rather

Figure 3.2 Percentage of Part-time Workers Preferring to Work More Hours, 1978 to 1987



Source: ABS The Labour Force, Cat. No. 6204.0 and 6203.0, various years

than of 6 per cent. We turn to some of the main reasons for the persistence of unemployment in the next section. Before leaving labour market trends, however, it is necessary to consider other information on the quality of labour market conditions and the analyses which have been undertaken on their social implications.

The rise in unemployment in the early 1980s may have been accompanied by increasing underemployment. In 1983 there was a marked increase in the percentage of male part time workers who were looking for full time work. This trend was reversed as the unemployment rate declined in 1984 and 1985 (Figure 3.2). Among full time workers, self employment continued to grow more rapidly than wage and salary employment (Figure 3.3). Some growth in self employment could result directly from the lack of paid job opportunities as has been suggested by Covick (1984). Our finding that many self employed have very low incomes is indirect support for his views.

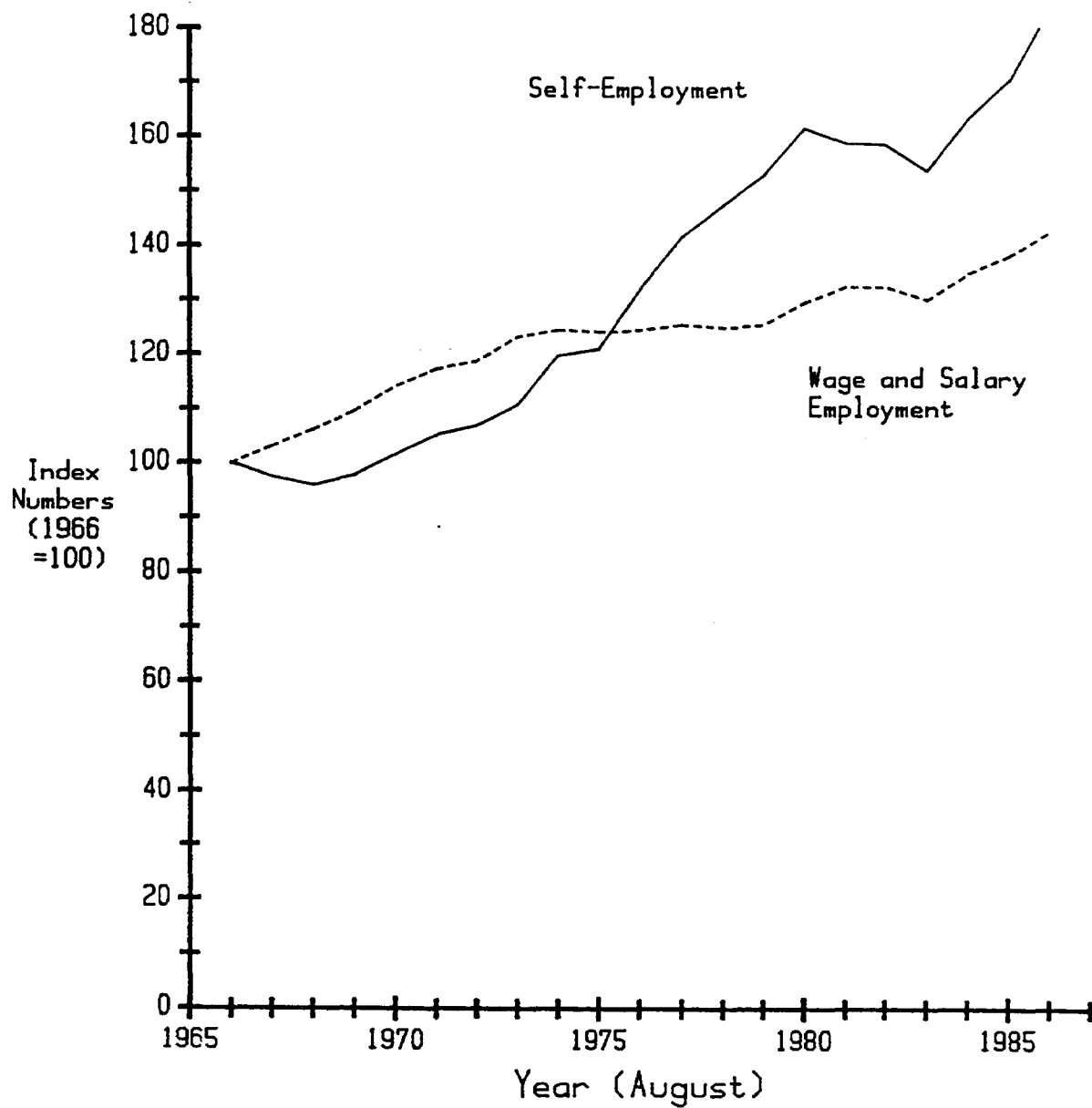
A number of studies have attempted in various ways to calculate the impact of these changing economic conditions on the distribution of incomes and the level of poverty in Australia. Perhaps the most complete analysis is that of King (1987) who used microanalytic simulation methods to update the **Income and Housing Survey 1981-82** so that the unit records could be used to analyse conditions in 1985-86. The technique entailed ageing the original data for demographic changes and for labour market changes - particularly the higher unemployment and the longer average duration of unemployment. Economic ageing of the data was achieved by inflating earned incomes, social welfare payments and asset incomes by the appropriate indices. Using both the original and the synthetic data, King estimated the incidence of poverty to be 15.0 per cent in 1981-82 and 17.7 per cent in 1985-86 among the Australian population.<sup>1</sup> He identified rising unemployment and its increasing duration as one of three factors contributing to this change in the level of poverty. We have already noted the high proportion of unemployed people who were in poverty in 1981-82. As the average duration of unemployment increased after that year, the unemployed would on average have had to depend

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1. King's estimates of the level of poverty in 1981-82 are not directly comparable with those published in this report since he used a different method of imputing income taxes and a different poverty line. Moreover his coverage of the Australian population was not the same as that used here.



Figure 3.3 Changes in Non-farm Employment, 1966 to 1986



Source: ABS Cat No. 6203.0 and 6203.0, various years

upon unemployment benefits for longer periods. Their incidence of poverty would therefore be expected to increase.

King suggested that two other contributors to the increase in the general level of poverty in Australia were the rise of the poverty line and the fall in the real value of family allowances. The poverty line level of income had increased more rapidly than average wages and salaries and by more than some social welfare payments. Family allowances had not adequately kept up with the living costs of large families. The incidence of poverty among large families was shown to be very high in the later year. King speculated that because of the low rate of increase in wages and salaries in the early 1980s 'it could also be expected that income units with wages as their principal source of income would have constituted a larger share of those in poverty in 1985-86 than in 1981-82' (King, 1987, pp.18-19). If this proves to be true, then it will mean a major break with trends in the 1970s for, as we have shown, fully employed wage and salary earners were less at risk of poverty in 1981-82 than they had been in the early 1970s. King did not report on the separate effect of these factors. The measurement of their individual contributions to rising poverty in Australia must await the analysis of the income survey conducted by the Australian Bureau of Statistics for 1985-86.

King's technique of measuring current poverty is complex. Burbidge (1981) had earlier developed a simple method of imputing the level of poverty associated with unemployment so that he could revise the findings of the Commission of Inquiry into Poverty for the effects of higher unemployment in the late 1970s (see part 1 above). We applied his techniques to an analysis of poverty among **persons** (Vipond, Bradbury and Encel, 1987) and estimated that the proportion of all adult Australians living in poverty would have increased from 12.2 per cent in 1981 to 13.5 per cent in 1983 **had there been no other change than that in unemployment**. Between 1983 and 1985, the incidence of poverty among adults would have fallen to 12.8 per cent.

Methods of updating poverty estimates, whether by simple or complex methods, are far from ideal. When microanalytic simulation methods are used, the different factors associated with changes in poverty are not separated. When poverty is measured among persons simply by analysing their risks of

unemployment, then the social impact of unemployment upon different family structures is neglected. Whiteford (1987) has analysed the last issue in some detail using statistics on recipients of unemployment benefits and data from labour force surveys.

Whiteford's work shows that although the unemployment rates of single persons are higher than for people with dependants (and have been so for some time), the last recession was particularly severe in its effects upon families with children. Whereas the total number of unemployed workers was 65 per cent higher in 1983 than it had been in 1980, the number of cases in which a husband or wife who had dependent children was unemployed had increased by 121 per cent. By 1986, the situation had improved but families with children were still worse off than others when compared with 1980. The unemployment of sole parents had also increased by more than the total had risen. As a result, the proportion of all Australian children who lived in families where the chief wage earner was unemployed rose from 2.6 per cent in 1980 to 6.3 per cent in 1983 and was 5.2 per cent in 1986. As Whiteford has noted,

Unemployment is not necessarily any more bearable because one does not have dependants to support, but the presence of dependants does add to the difficulties of the unemployed, particularly given the inadequacy of current support for low income families with children. (Whiteford, 1987, p.17)

In summary, there has been a severe deterioration in labour market trends since the statistics that we analysed in Part 2 of this report were collected. The unemployment rate has increased and so has the average duration of unemployment. More part time workers would prefer to work full time and more people are self employed. Research has suggested that poverty in Australia has increased since 1981-82 and that the conditions in the labour market are important determinants of this situation. In addition, unemployment affects families proportionately more than it did in the past (c.f. single people and couples without children) and thus it has greater significance in the problem of child poverty.

### 3.2 Macroeconomic Policies and Unemployment

There are two ways in which the social consequences of economic recession which we have detailed in this report can be avoided. Governments

may reduce unemployment rates or ameliorate the disadvantages that being unemployed entails. It is obvious that to cure is a better policy than to acquiesce yet cures remain elusive not only in Australia but also in many other countries. It is not possible to fully discuss here the causes of unemployment nor to look in detail at actual or potential policy responses to the problem. These issues cannot, however, be totally ignored for they are the context in which social policies towards unemployed people are framed. In this section, we shall briefly outline the way in which macroeconomic policies can affect the level of unemployment, the scale of their failure in the last decade and the constraints that currently limit their potential effectiveness.

The term macroeconomic policies refers to the use of a widespread array of instruments that the government can either directly control or indirectly influence, such as: tax rates, government expenditure levels, the money supply, exchange rates and wage rates. From the point of view of unemployment rates, the most important outcome of such policies is their effect on the total level of production of goods and services. The greater is the volume of this output, the higher will be the level of employment and the lower will be unemployment. While the government does not have total control over the level of aggregate output, it does have considerable influence which it can use to reduce unemployment.

Economists have calculated the rate of growth of output required to maintain a constant rate of unemployment. Such growth would generate enough extra jobs to absorb the growth of the labour force, which occurs through changes in population plus changes in the labour force participation rate, and would also create work for people whose jobs are being displaced by rising labour productivity. In the decade 1975-76 to 1984-85 average productivity of labour grew by 1.7 per cent per annum. If output did not expand, then 1.7 per cent fewer workers would be needed each year. The population of working age expands by about 1.6 per cent per annum and the labour force participation rate increases by a small amount when unemployment declines. There are cyclical fluctuations in the rate of productivity growth as well as in labour force participation rates so it is impossible to be precise about the amount of additional output required each year to avoid an increase in unemployment. Consequently, a range of values is stated:

between 3.25 per cent and 3.75 per cent growth per annum in total non-farm real output is required if the unemployment rate is not to increase in Australia (State of Play 4, 1986, Chapter 4).

It is clear from statistics on output growth during the last decade that achieving this rate of growth has not been possible over the period and has rarely been reached in individual years. Levels of output growth that would reduce unemployment have occurred in only 1978-79 and 1980-81 (associated with the resources boom) and in the first three years of the Hawke Labor Government 1983-84 to 1985-86 inclusive (Australia, Treasury, 1987c, p.15). In other years, growth has been less than required to stop unemployment from rising.

Some of the reasons why fostering aggregate output growth and reducing unemployment have not been given priority by governments have been referred to in Part 1 of this report in the analysis of Budget Speeches which described other goals of policy. In the early 1980s, it was feared that faster output growth would lead to increased wage demands and higher inflation. The slow growth of 1982-83 was partly associated with the international recession rather than being deliberately created by policy. It is a reminder that governments may influence but not totally control the economy. In the following three years unemployment reduction was given priority. By 1986-87, however, overseas influences, particularly the fall in Australia's export earnings, were dominant. In order to correct a large balance of payments deficit, output growth had to be constrained so that fewer imports would be demanded.

These conflicts, between reducing unemployment and achieving other goals with respect to inflation and the current account deficit, explain why macroeconomic policies have not been successful in the past. The Accord between the ACTU and the government may have reduced the current conflict between reducing unemployment and inflation but the conflict between lowering unemployment and removing the current account deficit has worsened recently with lower prices for Australian exports and higher real interest rates. The scale of our unemployment problem is now so large that we need a significant increase in output growth. This is unlikely to be achieved in the near future.

These pessimistic conclusions can be slightly relieved by the fact that in 1986-87, low output growth was **not** accompanied by rising unemployment. This unexpected trend has not been fully explained. On the one hand it may simply reflect statistical errors. On the other, it may be due to reduced real wages and higher real interest rates. These relative price changes may have made employing extra labour profitable. Nevertheless, despite this qualification, the forecast for unemployment must remain very pessimistic. A macroeconomic cure for unemployment will remain elusive. Policies which might alleviate the problems of unemployed people are therefore vitally important if the social consequences of our economic situation are to be faced in an equitable way.

Whilst the development of such policies has been influenced by the evidence of the hardship faced by the unemployed, other factors have also been important. In particular, political issues have been central in determining the course of government policy.

### 3.3 The Political Context

Macroeconomic policies are based on a theoretical framework which argues that most unemployment is 'involuntary'. That is, it is not caused by workers refusing jobs but rather by a shortage of job opportunities. This basis justified the white paper, **Full Employment in Australia** (Parliament of the Commonwealth of Australia, 1945) in which the federal government accepted responsibility for the level of unemployment. Initially, full employment was achieved. As we noted above, however, from the mid 1970s the economic environment was such that full employment conflicted with other goals of policy and compromises were made. Yet, while the concept of involuntary unemployment dominated economic analysis, it did not transfer as easily into the political domain and was not sufficiently persuasive to permit governments to offset the social consequences of the higher unemployment by granting generous income support to unemployed people.

A fundamental reason for this springs from the fact that, although unemployment in general stems from factors external to individuals, in **individual cases** it is more difficult to make this assumption. Unemployment as a category for receipt of income support shares with sole parenthood the quality that people may be suspected of **choosing** to enter that category. For

other categories of people to whom income support is directed (the aged, those with health related disabilities, those with children) the eligibility problem is less critical (Saunders, 1987a).

Even though the evidence points to individual choice as being relatively unimportant in determining the overall level of unemployment (see Part 1 of this report), the possibility that some unemployment may be voluntary undoubtedly weakens the case for substantial income support for the unemployed. This is particularly the case when it is argued that increasing benefits may encourage more people to become, or remain unemployed.

Moreover, a process of blaming, rather than helping, the victim has at times been encouraged by the policies and statements of governments. The 'dole bludger' and 'welfare cheat' campaigns encouraged by governments in the face of rising unemployment in the second half of the 1970s were in part an attempt to deflect the blame for the economic crisis away from themselves<sup>2</sup>.

Whilst the continuation of unemployment across successive governments has diminished the need for such a deflection of blame, and the high levels of unemployment have reduced the plausibility of the 'voluntary unemployment' argument, the fiscal crisis facing the Australian government in the mid 1980s has prompted the return of such issues to prominence. The concern now, however, is that expenditures are excessive because of 'cheating' by beneficiaries, rather than lack of job search effort. The comments of Senator Walsh in 1986 were widely reported,

... it is difficult to escape the conclusion that there has been an upsurge in the incidence of cheating. By cheating, I mean people working effectively full-time and suppressing that fact when claiming benefits, or people claiming benefits using different names. (Walsh, 1986, p.804)

Evidence for such allegations is much weaker than this comment implies (Bradbury, 1987) but there is no doubt that such views are widespread. Whether as a result of the urging of the media, politicians and business, or for other reasons, it is clear that the belief that the unemployed themselves are responsible for their plight is popular with the Australian public.

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2. See Windschuttle (1980) and Deacon (1978) for a discussion of such campaigns in Australia and the United Kingdom respectively.

Figure 3.4 illustrates one measure of trends in these attitudes over the past decade.

Since 1975, the Morgan Gallup Poll has periodically asked samples of respondents their views on the main causes of unemployment. Respondents were presented with a list of five causes, and asked which, if any, were the main causes of the unemployment rate. The alternatives were: people not wanting to work, world economic pressures, trade unions, government, and employers. Figure 3.4 presents the percentage of respondents giving 'people not wanting to work' as a main cause of unemployment<sup>3</sup>. At no time since 1975 have fewer than 24 per cent of respondents suggested this as a reason.

For those familiar with the debate as to the causes and solutions to the unemployment problem, this may be surprising - particularly in the context of the slack labour markets experienced during this period. Higher unemployment means that even if some of the unemployed did not want to work, this would have negligible impact upon the unemployment rate as other unemployed would be available to fill the relatively few vacancies<sup>4</sup>. Some appreciation of this relationship does seem to exist among the Australian public. The rise in unemployment during 1975 was followed by a substantial drop in those blaming the unemployed between 1975 and 1976. Similarly, the continuing historically high levels of unemployment between 1976 and 1982 did lead to a (somewhat irregular) reduction in willingness to give this reason. However, subsequent to 1982, more people have apportioned blame to the unemployed, despite the massive rise in unemployment during 1982-83. Currently, the proportion of people blaming the unemployed is almost as high as it was in 1975. Interestingly, the peaks in those attitudes have been associated with Labor governments, and the troughs with Liberal.

How can these trends be explained? One obvious contender is variations in the media portrayal of the unemployment debate. Smith and Wearing (1987) note the association between the attack on 'dole bludgers' led by the Fraser government and the increase in the public's propensity to blame the

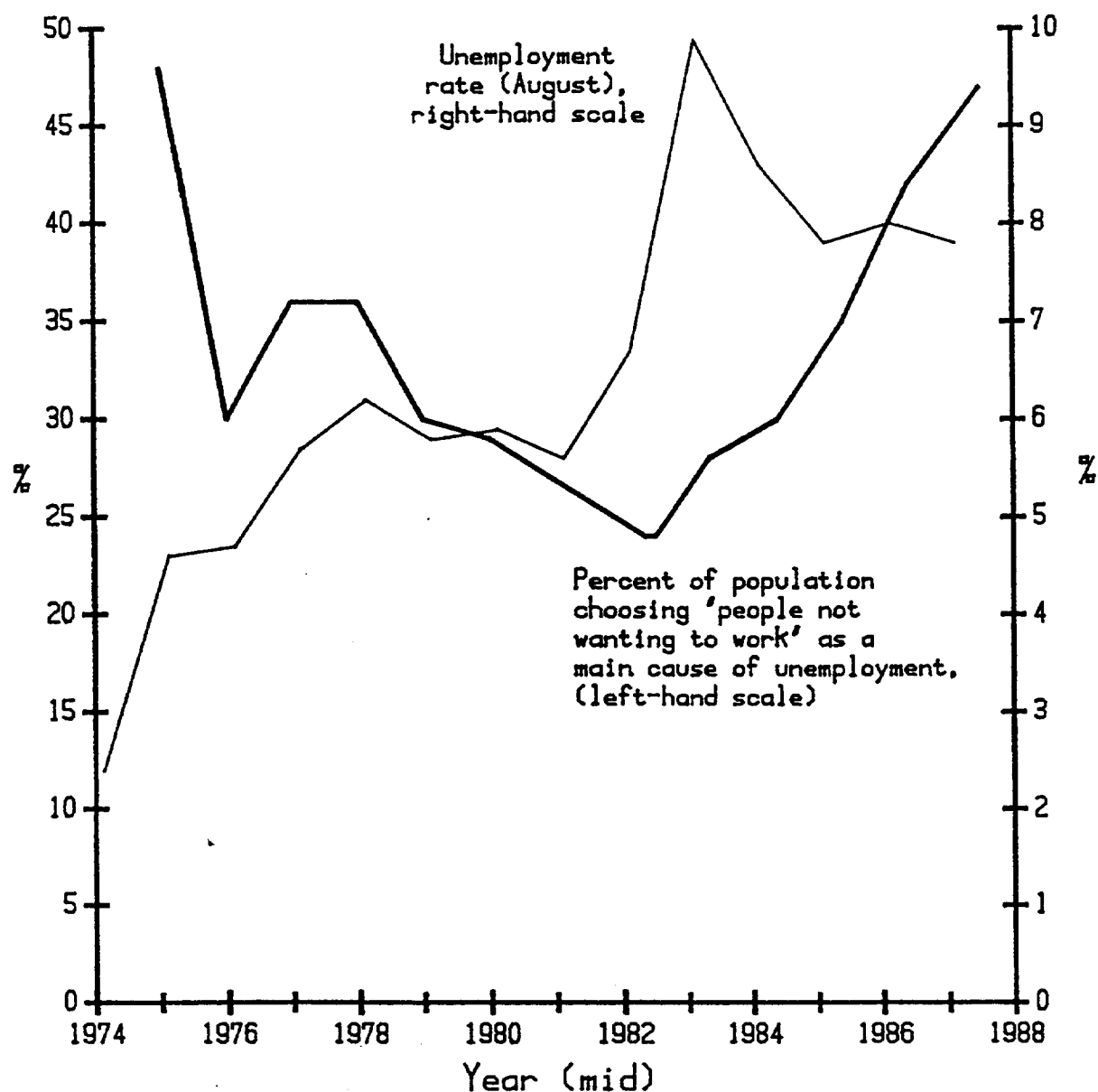
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3. Discussion of the trends in the other responses can be found in Smith and Wearing (1987).

4. It is possible that some people, whilst accepting this relationship, may have mis-interpreted the question to relate to the causes of particular person's unemployment.



Figure 3.4 "People not wanting to work" as a perceived cause of unemployment, 1975 to 1987.



Source: Unemployment Rate, ABS Cat No. 6203.0 and 6203.0, various years  
Perceptions of Unemployment Causes, Morgan Gallup Poll (1988)

unemployed in 1977 and 1978 as compared with 1976. Similarly, we might point to the increasing attention directed to 'dole cheats' over the last two years as being reflected in these figures.

A further consideration (which points to the limitations in using these data) is that the change of government in 1983 saw a marked decline in the proportion of people attributing unemployment to government. Presumably many people considered the option 'government' to refer to the current government which was too recent to blame, rather than to governments in general. The lack of clarity about which were the institutional forces responsible for unemployment may have encouraged them to choose individualistic reasons.

There were differences among the population sub-groups during the period. Women were more likely than men to be critical of unemployed people (38% vs 33%) as were younger respondents (47% for 14-17yr olds, 28% for 65yrs and over) (Morgan Gallup Poll, 1985). There was little difference on this issue between Labor and Liberal voters, or between the population as a whole and those who were looking for work themselves. Workers in blue-collar occupations were substantially **more** likely to blame the unemployed than were white collar workers. Interestingly, in spite of the fact that their protests in the media are the most vocal, small business owners were relatively **unlikely** to blame the unemployed (27%).

How are these results to be interpreted? Windschuttle (1979) in an extensive analysis of the role of the media in the 1970s argued that the high proportion of people who thought that the unemployed did not want to work was a direct result of the

... long, persistent and loud campaign waged by the news media against the 'dole bludgers' of the community...The press recognized it was onto a story its readers wanted to hear. (Windschuttle, 1979, pp155 and 158)

Why did the press (and politicians) feel that this was a story the public wanted to hear? Windschuttle argues that the public finds stories of 'dole bludging' attractive because of their representation of the conflicts between the readers' desires and the constraints of capitalist society. We are fascinated with the concept of breaking the rules of that society, but

feel that this is not possible for us, and hence want to enjoy moral indignation at such deviant activity.

The public wants to experience, vicariously, a life different to the one to which most people are confined; but it also wants to feel morally outraged about those it believes take the easy way out. This duality forms the basis of the media's concentration on all forms of deviant behaviour and of its definition of social problems. (Windschuttle, 1979, p170)

If this moral indignation is a result of constrained desires, it may be reasonable to suppose that those who are constrained most would be most indignant. The tendency for the working class to be more likely to blame the unemployed is consistent with this hypothesis. Such responses may be more likely to occur when the working class itself is facing declining living standards. Indeed, Deacon (1978) has argued that a key reason for the increasingly negative public attitudes towards the unemployed in Britain was the fall in low wage incomes which made the working class resentful of their support of beneficiaries. In the face of their own economic hardship, their compassion for those only marginally worse off dried up very fast. In Australia, we too are facing falling levels of real wages. As in Britain, these may be associated with increasing resentment towards those dependent upon the income support system.

Graetz (1987) provides an alternative response for the pattern of criticism of the unemployed by the working class. He argues that they are simply not so aware of the economic debate surrounding the structural causes of unemployment, and hence are more likely to turn to alternative culprits. His views are consistent with the explanation of the role of the media given by Windschuttle. Members of the working class are more likely to gain their information of events outside their own experience from the mass media (particularly those sections which emphasise the portrayal of deviance in their news format). Whilst the media's focus on this issue may be a response to 'what the public wants', it in turn has had the effect of furthering those attitudes. Thus what starts out as a **fascination** in the eyes of the public, can grow into a **belief** as the media feeds on that interest with continual descriptions of (often mythical) 'dole bludgers'.

Graetz also reports that unemployed youth were considered by the public in 1983 to be far more responsible for their own plight than were unemployed

workers generally. If this reflects a general doubt in the public's mind as to the strength of the work ethic among the young, the data presented above suggests that it is also shared by the young themselves. Again, some of the explanation for this difference of attitudes among the young may be due to their different sources of economic 'news'.

Public opinion about the causes of unemployment is an important aspect of the context within which governments develop policies. Obviously, the more critical the public is of unemployed people, the less will be the political advantage in assisting them. Governments are, in any case, concerned about the work incentive effects of the income support system. Combined, these factors have led to the development of an emphasis in policies on the links between income support and finding employment, as, for example, in the new Job Search Allowance. In the following sections we review recent developments in policies towards the unemployed, beginning with an overview of the levels of expenditure allocated to the different types of policy.

### **3.4 Policies to Aid Unemployed People: Levels of Expenditure**

Within the constraints posed by macroeconomic goals, governments still have a range of options to deal with the social problems caused by unemployment. These include both direct provision of income and services to the unemployed, as well as various microeconomic policies designed to increase their probabilities of finding employment.

The many different policies can be categorised into one of two groups, income support and labour market programs. Fiscal outlays by the federal government on such policies between 1977-78 and 1987-88 are listed in Table 3.1. In 1986-87 around 4.5 billion dollars were expended in these areas. This comprised 6 per cent of total Commonwealth outlays, or 1.7 per cent of gross domestic product. Such expenditure provides only a narrow measure of the government's role in the labour market - even if we set aside the issue of macroeconomic demand management. A wide range of other government policies are implemented specifically to achieve labour market goals: in education policy (particularly through TAFE), industry assistance and other economic services. Unlike those described in Table 3.1, however, most such programs would be equally important under more buoyant labour market

**TABLE 3.1: EXPENDITURES ON SELECTED COMMONWEALTH LABOUR MARKET PROGRAMS AND INCOME SUPPORT FOR UNEMPLOYED PEOPLE, 1977-78 TO 1987-88. (in constant 1986-87 dollars)**

|   | 1977-78<br>\$m | 1978-79<br>\$m | 1979-80<br>\$m | 1980-81<br>\$m | 1981-82<br>\$m | 1982-83<br>\$m | 1983-84<br>\$m | 1984-85<br>\$m | 1985-86<br>\$m | 1986-87<br>\$m | 1987-88<br>\$m(est) |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------------|
| <b>Labour Market Programs</b>             |                |                |                |                |                |                |                |                |                |                |                     |
| Training Programs                         | 252            | 310            | 116            | 150            | 159            | 168            | 226            | 243            | 209            | 193            | 253                 |
| Job Creation and<br>Employment Assistance | 0              | 0              | 44             | 67             | 82             | 291            | 704            | 612            | 424            | 344            | 218                 |
| Community Based<br>and Aborigines         | 15             | 18             | 40             | 48             | 80             | 77             | 107            | 123            | 127            | 134            | 142                 |
| Placement/Information<br>Services         | 111            | 134            | 120            | 148            | 150            | 133            | 163            | 174            | 186            | 171            | 168                 |
| Other (1)                                 | 162            | 124            | 156            | 138            | 131            | 169            | 152            | 172            | 182            | 188            | 191                 |
| <b>Total Labour and<br/>Employment</b>    | <b>542</b>     | <b>587</b>     | <b>475</b>     | <b>549</b>     | <b>604</b>     | <b>836</b>     | <b>1351</b>    | <b>1324</b>    | <b>1126</b>    | <b>1031</b>    | <b>973</b>          |
| <b>Income Support</b>                     |                |                |                |                |                |                |                |                |                |                |                     |
| Unemployment Benefit                      | 1694           | 1818           | 1682           | 1637           | 1803           | 2991           | 3590           | 3458           | 3376           | 3454           | 3301 <sup>(2)</sup> |
| U.B. per beneficiary<br>(\$'000)          | 6374           | 5937           | 5492           | 5281           | 5430           | 5536           | 5794           | 5945           | 6037           | 6013           | 6002                |

**Notes:** (1) Includes; Industrial Relations, Economic and Labour Market Advising, and General Administration

(2) Includes Job Search Allowance

**Source:** Australia, Treasury, (1987), *Budget Statements, 1987-88, Budget Paper No.1.*  
Australia, Department of Social Security (1986) *Annual Report, 1985-86.*

conditions. Their aim is to improve labour market efficiency rather than to ameliorate the circumstances of the unemployed.

Similarly, income support for those affected by the economic recession is not confined to the unemployment benefit outlays listed in Table 3.1. With a buoyant labour market, people eligible for other categories of assistance (e.g. sickness benefits, sole parent payments) will often be able to obtain sufficient income from the labour market. High unemployment forces many of these people onto pensions and benefits.

Nonetheless this table does give us a broad indication of the direction of government policy (at the federal level at least). One obvious point which follows from this is the relative importance of income support policies. Over the past decade expenditure on unemployment benefit has generally been over three times the expenditure on labour and employment programs - the large expenditures on job creation programs during 1983-84 and 1984-85 providing the only important exceptions.

This is in marked contrast to the situation in Sweden, where as one author recently remarked, expenditure earmarked for cash assistance to the unemployed 'has been radically increased, rising to a level of almost 30 per cent' of total labour market expenditure (Dahlberg, 1986, p.15). Another study reported that in 1983-84 expenditure on unemployment benefits comprised 22 per cent of government labour market expenditures, supply side measures (mainly training) 22 per cent, and measures to affect the demand for labour (job creation and subsidies) 55 per cent (Johannesson and Persson-Tanimura, 1984). Altogether 4.2 per cent of GNP was expended in these policy areas (cf. 1.7% of GDP for Australia). As a result of such policies, unemployment in Sweden in 1985 was only 2.8 per cent of the workforce (down from a peak of 3.5% in 1983).

Whilst cross-national comparisons of such data can only be approximate, the contrast in approaches is clear. Therborn (1986) argues that unemployment can be maintained at low levels in countries where an institutional (and fiscal) commitment to such policies exists. Recent Australian history would seem to suggest that we have a long way to go to the establishment of such a commitment.

The statistics presented above point to two main differences between the policies of countries like Sweden and Australia. First, overall government fiscal commitment to labour market policy is greater in the former, and second, income support is a less prominent feature of the Swedish response. As we shall see below, there is some evidence that current Australian government policy is moving towards reducing the second of these differences, though little progress is being made on the former.

### 3.5 Income Support Policies

The primary form of income support available to the unemployed in Australia is the Unemployment Benefit. The rate of payment is determined by demographic factors such as the person's age and number of dependants.

The basic structure of the program has remained largely the same since it's inception by the Chifley government during World War II. The basic features of the initial scheme were that it:

- . provided a relatively low level of income support compared to schemes in other countries, and this rate was independent of previous earnings;
- . was financed from general revenue rather than a specific social insurance contribution;
- . achieved a relatively high coverage of unemployed people (previous insurance contributions were not required for eligibility);
- . it was intended primarily to cover short term periods of joblessness, while people searched for full time work.

Currently, the primary conditions for eligibility for unemployment benefit are that a person must:

- . be unemployed (though part time work whilst searching for full time employment is permitted);
  - . be capable of undertaking and willing to undertake suitable paid work;
-

- . be taking reasonable steps to obtain such work (as part of this requirement beneficiaries must be registered with the Commonwealth Employment Service);
- . not be unemployed due to being, or having been, engaged in industrial action (by the individual or other members of their trade union);
- . have limited income and assets, including those of the spouse.

In Figure 3.5 the maximum level of income support provided by these benefits over the last decade and a half is described. In the first part of the figure they are shown in constant dollar terms (i.e. adjusted by the CPI to be measured in 1987 dollars) and in the second part they are shown relative to the poverty lines for the respective family types. These diagrams illustrate several important policy changes over this period.

The most significant change was the substantial increase in benefit rates that occurred in the early 1970's. The Whitlam government in 1973 gave unemployed workers parity with pensioners in terms of the basic rates paid, and gave the same rate irrespective of the age of the unemployed person. Since then benefits for adults have stayed roughly the same in real terms, though with a decrease during the period 1978 to 1982 for single adults. Whilst benefits for youth were increased to the adult level in 1973, this policy was gradually reversed over the ensuing decade (through non-indexation of their benefit). In 1986 the intermediate range of benefit for youth aged 18-20 years was reintroduced as part of a policy of integration of education and social security benefit structures.

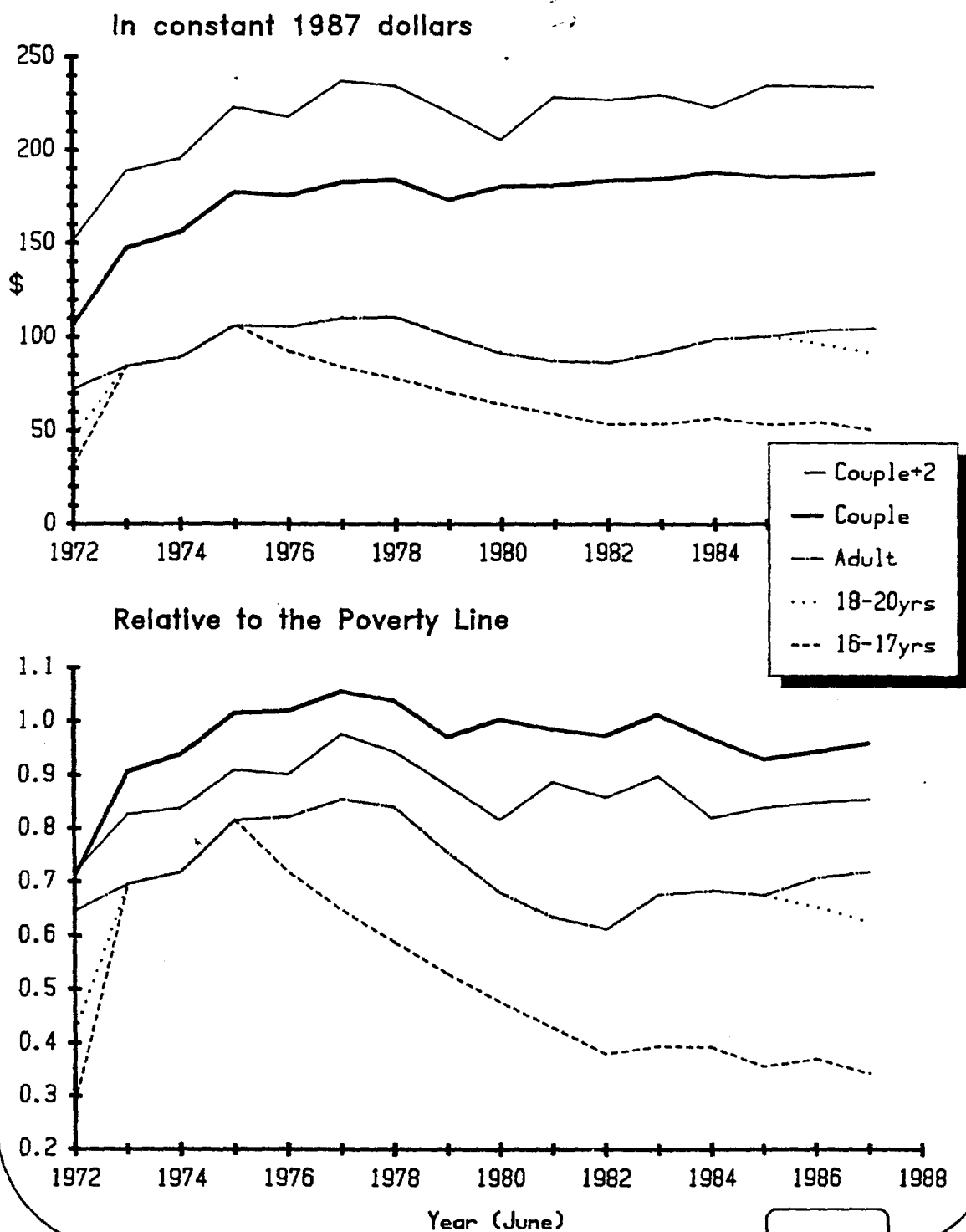
The second part of Figure 3.5 shows a similar picture. For almost the whole of this period all of these benefits were lower than the poverty line. In this report we have followed the approach of the Poverty Inquiry and used the 'head in the workforce' poverty line for the unemployed<sup>5</sup> which is higher than the poverty line for income units with the head not in the workforce. It is assumed that those employed, or searching for jobs, have expenses not shared by those not in the workforce. If this assumption of job search costs for the unemployed were rejected, and the lower poverty line used instead,

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5. Similarly, for cases where the spouse was unemployed, the 'spouse in workforce' poverty line was used.



Figure 3.5 Unemployment Benefits, 1972 to 1987



many categories of beneficiaries would have incomes above the poverty line, though still below 120 per cent of the poverty line (Saunders and Whiteford, 1987).

The Henderson equivalence scale assumes that the needs of families with dependent children and of single adults are greater relative to couples than those assumed by the unemployment benefit structure.<sup>6</sup> Hence couples are shown as being closer to the poverty line than others. Since 1977, all unemployment benefit payments have fallen further below the poverty line. This was partly because the poverty line is set in relation to community incomes rather than prices, and these were generally increasing in real terms over the period (except for the last few years). Thus, relative to the community as a whole, those subsisting on unemployment benefits have become worse off. The amount of poverty associated with unemployment has been exacerbated by this trend as well as by two of the labour market changes noted earlier - the increase in the average duration of unemployment and the shift in the demographic composition of the unemployed to include more workers with dependants.

In general, unemployment beneficiaries have had to subsist on lower incomes than pensioners (Table 3.2). Two decades ago beneficiaries received approximately two-thirds the payment to pensioners. Parity in the base rates of payment was imposed by the Whitlam Government in 1973. While this parity has been maintained for couples, single adult unemployment beneficiaries fell behind their pensioner counterparts in the second half of the 1970s and early 1980s - with only some of this gap regained thereafter. The younger unemployed, as noted earlier, received still lower levels of benefit.

For those renting, the disparity between pensions and benefits has been even wider. It was reduced in 1985 with the introduction of rental assistance for those aged over 18 and unemployed for over six months, though the amount granted was less than for pensioners. The introduction of the family assistance package in December 1987 will mean that those beneficiaries with dependants will now receive rental assistance on the same basis as pensioners.

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6. In this figure, and in part 2 of this report, the same poverty line was used for single youth as for single adults.

TABLE 3.2: COMPARISON OF MAXIMUM PENSION AND ADULT UNEMPLOYMENT BENEFIT RATES, 1964-65 TO 1985-86

| Maximum Payment Rates in Real Terms (1985-86 dollars per year) |         |          |          |          |
|--|---------|----------|----------|----------|
|  | 1964-65 | 1975-76  | 1982-83  | 1985-86  |
| Unemployment Benefit   |         |          |          |          |
| Single Adult   | \$2,134 | \$4,801  | \$3,963  | \$4,682  |
| Couple   | \$3,685 | \$7,991  | \$8,080  | \$8,454  |
| Couple, 2 dep  | \$4,849 | \$10,022 | \$10,050 | \$10,710 |
| Pension (not renting)  |         |          |          |          |
| Single Adult   | \$3,074 | \$4,801  | \$4,847  | \$5,068  |
| Couple   | \$5,630 | \$7,991  | \$8,080  | \$8,454  |
| Couple, 2 dep  | \$6,794 | \$10,022 | \$10,050 | \$10,710 |
| Pension (renting)  |         |          |          |          |
| Single Adult   | \$3,332 | \$5,429  | \$5,433  | \$5,848  |
| Couple   | \$5,888 | \$8,620  | \$8,667  | \$9,234  |
| Couple, 2 dep  | \$7,052 | \$10,651 | \$10,636 | \$11,490 |
| Ratio, UB/Pen (not renting)                                    |         |          |          |          |
| Single Adult   | 0.69    | 1.00     | 0.82     | 0.92     |
| Couple   | 0.65    | 1.00     | 1.00     | 1.00     |
| Couple, 2 dep  | 0.71    | 1.00     | 1.00     | 1.00     |
| Ratio, UB/Pen (renting)  |         |          |          |          |
| Single Adult   | 0.64    | 0.88     | 0.73     | 0.80     |
| Couple   | 0.63    | 0.93     | 0.93     | 0.92     |
| Couple, 2 dep  | 0.69    | 0.94     | 0.94     | 0.93     |

**Notes:** Calculated from Moore and Whiteford (1986). Rates for families with children include family allowances. Unemployment Beneficiaries with durations of benefit receipt of 6 months or more were entitled to a reduced rate of rental assistance after 1985 which is not included in the table above. Between 1976-77 and 1984, some full year Unemployment Beneficiaries would have been liable to tax whereas pensioners with similar incomes would have received the pensioner's rebate.

Probably more significant than the differences in the base rates of pension and benefit are the different fringe benefit entitlements and income tests on non-benefit income. For pensioners, the fringe benefits associated with the Pensioner Health Benefit card have been estimated to be worth some 7 to 13 dollars per week (in 1981-82) or around 15 per cent of the standard pension rate (SWPS, 1984). The value of the fringe benefits available to the unemployed has not been separately estimated, but would be considerably less than this, as many benefits available to pensioners such as utility concessions, rate rebates etc. are not generally available to beneficiaries.

Pensioners who have additional income (from themselves or their spouse) also face a significantly less restrictive income test than do the unemployed. This structure arose from a concern with the possible disincentive effects of income support which were seen as more serious in the case of those of working age than the elderly. The income test for unemployed people was designed to deter them from combining part time work with receipt of unemployment benefits. In the period of full employment, the average duration of receipt of unemployment benefits was short. The lack of supplementary income was not a serious issue. Since unemployment duration has increased, the association between long term receipt of benefit and living in poverty has become a serious problem.

It seems inevitable however, that the level of income support provided for the unemployed will remain lower than that for other categories. The reasons for this are in part 'technical' in that they follow from the relationship of unemployment benefit to the labour market, and hence from a concern for effects on incentives for work. Probably more important are the issues of a political nature discussed earlier. The 'deserts' of the unemployed are harder to establish than for other groups - and indeed are under constant threat from sensationalist portrayals in the media. Moreover, most Australians see unemployment as an **economic** rather than a social problem. As Smith and Wearing argue,

The more easily a group in need can be subsumed into the categories of economic problems, the less easily will the public support expanded welfare provision for that group. (Smith and Wearing, 1987, p.63)

**TABLE 3.3: INCOME SUPPORT EXPENDITURES ON THE UNEMPLOYED  
IN SELECTED OECD COUNTRIES, 1984**

| Expenditure per Unemployed<br>Person by the State |  |   |
|---|--|---|
| Country   | US \$ per annum<br>(in 1980 US\$) <sup>1</sup><br>(rank in brackets) | As proportion<br>of GDP per capita <sup>2</sup><br>(rank in brackets) |
| Denmark   | 8145 (1)   | 95% (1)   |
| France  | 6381 (2)   | 73% (2)   |
| Netherlands                                       | 6293 (3)   | 72% (3)   |
| Sweden  | 6047 (4)   | 66% (4)   |
| Norway  | 5083 (5)   | 53% (6)   |
| Germany   | 4326 (6)   | 48% (7)   |
| Austria   | 4169 (7)   | 53% (5)   |
| <b>Australia</b>                                  | 3484 (8)   | 41% (8)   |
| Japan   | 3064 (9)   | 39% (9)   |
| UK  | 2568 (10)  | 33% (10)  |
| New Zealand                                       | 2333 (11)  | 33% (11)  |
| Spain   | 1776 (12)  | 31% (12)  |
| Italy   | 1707 (13)  | 21% (13)  |
| USA   | 1531 (14)  | 13% (16)  |
| Finland   | 1404 (15)  | 17% (14)  |
| Greece  | 723 (16)   | 16% (15)  |
| Portugal  | 282 (17)   | 7% (17)   |

**Notes:** (1) From Varley (1986). National currency values are converted to 1980 US\$ using purchasing power parities.

(2) 1980 GDP per capita in 1980 US\$ using purchasing power parities. From Australian Bureau of Statistics (1985), **Gross Domestic Product at Purchasing Power Parity in OECD Countries**, (Cat.No.5226.0)

We can view the 1987 changes which increase the child related payments to beneficiaries and extend rental assistance to those with children in this light<sup>7</sup>. It is only by defining their needs as **family** needs, rather than the needs of the **unemployed**, that additional assistance can be provided.

Another approach to assessing the adequacy of income support is via comparisons with the systems of other countries. Because of the widely differing structures and coverages of income support for the unemployed in different countries, comparisons are made very difficult. Two summary measures of the level of support provided are shown in Table 3.3. The first column of this table shows the total state expenditure on income support payments for the unemployed, divided by the number of unemployed, for each of a number of OECD countries. These payments are converted to a common currency (US\$ per annum) by means of purchasing power parity indexes. A similar level of income thus implies that the unemployed in different countries can purchase a similar basket of commodities. Some of the variability in these payments will be explained by the fact that rich countries can afford to pay their unemployed more. To control for this the second column expresses the first as a percentage of GDP per capita.

There is little difference in the rankings of countries in the two columns, with Australia 8th out of 17 in each case. It is difficult to be too precise in the interpretation of such figures, because they reflect not only payments to individuals, but the composition and coverage of the unemployed. The low level of support for the unemployed in the US, for instance, reflects both the limited duration of unemployment insurance payments, and the exclusion of many of the unemployed without previous employment experience from benefits at all (even though the replacement rates for those receiving insurance payments are quite high). However, the pattern shown in this table is one often mirrored for other social expenditures. Ranked above Australia are the welfare state leaders, which have major insurance programs providing high levels of income replacement for the unemployed. Those countries with markedly lower levels of expenditure are the welfare state 'laggards', Japan and the USA, together with the poorer members of the OECD.

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7. In December 1987 additional benefit for children was increased to \$22p.w. for children aged under 13, and \$28p.w. for children aged 13-15 (increases of \$5p.w. and \$11p.w. respectively). These increases are not included in figure 3.5.

Castles (1987) argues that these patterns have generally been established over a long period, and result from a range of attitudinal and institutional features of the welfare systems of different countries. Australia's mediocre performance in providing income support for those outside employment is due to the almost unique institutional features of our income transfer programs: that benefits are flat-rate, paid at subsistence level, means tested, and are financed from general taxation.

This 'safety net' concept of income support is to be contrasted with schemes based upon the principle of 'insurance'. Such schemes provide benefits linked to previous contributions, and have the goal of maintaining living standards rather than simply ensuring that they do not fall below a minimum level. Such a structure has meant that, in most countries with such schemes, it has been politically feasible to maintain high levels of transfers to the unemployed. In Australia however,

... the notion that welfare is only for the needy creates a political atmosphere in which the middle class has no interest in the generosity of a welfare system from which it cannot realistically benefit. (Castles, 1987, p.97)

The historical genesis of such a system, Castles argues, was in part due to the strategies employed by the labour movement, which concentrated its energies on seeking redistribution through the wages system, rather than through state transfers. Such an explanation is consistent with our own observations in part 2 that, for those fully employed, extremely low incomes were not a problem.

Castles' arguments are also consistent with recent research carried out on poverty in different countries. Smeeding, Torrey and Rein (1987) found that of Australian families with children who were classified poor before taxes and transfers, only some 27 per cent of their gross income came from earnings<sup>8</sup>. This compared with 40 per cent in Canada, 44 per cent in Germany, 23 per cent in Norway, 32 per cent in Sweden, 43 per cent in Switzerland, 44 per cent in the United Kingdom and 42 per cent in the United States. Whilst

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8. Poverty was defined in their study by the official US poverty line, converted to national currencies using purchasing power parity indexes. For Australia, this produced a poverty line of similar level to the Henderson poverty line (see Saunders and Whiteford, 1987).

more research is required to control for other causes, this is consistent with the fact that the Australian system is relatively effective in keeping families whose primary source of income is wages and salaries, out of poverty. In times of increasing un(and under)employment, however, such a 'wage-earner's welfare state' has become inadequate to deal with the problems of those who cannot gain employment.

On the other hand, some aspects of the structure of the Australian system of income support for the unemployed may be more appropriate now. Because unemployment benefits in Australia do not cease after a given period, as they do in many countries with insurance based schemes, they do not discriminate against the needs of the long term unemployed. In the mid 1970s, when unemployment durations were lower, the United States, for instance, spent a comparable amount to Australia on unemployment benefits per unemployed person (Varley, 1986, Table 9). As Table 3.3 shows, by the mid 1980s US expenditure was about half that of Australia. Whilst this is unlikely to be due entirely to this duration effect, the different pattern of benefit receipt is undoubtedly a major factor<sup>9</sup>.

An OECD study examined replacement rates (unemployment benefit as a percentage of earnings) in Australia, the United States, Canada, Germany and the United Kingdom, for the years 1980 or 1980-81 (OECD, 1986). In general, the study found that the level of income replacement provided by the Australian system was considerably lower than that in the other countries with insurance based schemes. For the long duration unemployed, however, this gap narrowed. The long term unemployed who while in work receive average earnings were better off in Australia than in the United States and were only marginally worse off here than in other countries. Furthermore, the flat-rate system of benefits with its allowances for dependants favours some groups - particularly those who while in work earn low wages and who have one or more dependants.

Compared to these other countries, the **structure** of the Australian system of unemployment benefits is relatively well suited to the objective of

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9. One additional factor is differential take-up rates. Part of the increase in the real level of benefits per unemployed person in Australia was due to increased take-up of benefit - though this alone cannot explain the observed pattern.



poverty alleviation, though not at all suited to the objective of income maintenance or insurance. Yet, the data in Part 2 of this report and the statistics in Figure 3.5 have illustrated that in fact the Australian system leaves many unemployed people in poverty. The structure of the system is favourable but levels of assistance and the commitment of expenditures are inadequate. As Castles has argued, the goals of poverty alleviation and income maintenance are not independent. Insurance based schemes, by increasing benefits to the middle class, may have the potential to mobilise greater resources to the unemployed generally - though the case of the US reminds us that this is by no means inevitable.

### **3.6 Income Support for Youth**

Whilst policies for income support for unemployed adults have remained relatively stable over the past decade, recent years have seen major changes in youth income support policies. There are a number of reasons for these changes: changing perceptions of the role of families vis-a-vis their children, increasing concern with low levels of educational participation, and concerns with the work incentive effects of unemployment benefits.

Contrasting views on the needs of youth and the role of parents can be clearly seen in the policies of Labor governments in the past two decades. In 1973 the Whitlam government increased the unemployment benefit for youth up to the adult level. In 1987 the Hawke government not only retained the Fraser government's policy of lower levels of benefit for the younger unemployed, but introduced an income test on parental incomes for 16 and 17 year olds.

There is some evidence that the Whitlam government's decision was out of step with community perceptions of relative needs and responsibilities. Public opinion polls in 1975 and 1976 indicated that beliefs were strongly held that the level of unemployment benefit was too high and that this viewpoint had substantially moderated by 1977 (Smith and Wearing, 1987, p.62). We might surmise that this change in public opinion reflected the decrease in the under 18 unemployment benefit. By contrast, the Hawke government's decision seems to have been electorally popular (16 and 17 year olds, of course, cannot vote!).

In the 1970s and early 1980s income support for youth was structured primarily on the basis of activity. The Tertiary Education Assistance Scheme (TEAS) provided income support for youth (and older people) undertaking tertiary education, the Secondary Allowances Scheme (SAS) provided a lower level of assistance for youth in the last two years of secondary education, and unemployment benefits were available to those youth unemployed and looking for work. The educational allowances were subject to parental income tests (except for 'independent' students), whilst unemployment benefit was subject only to a personal income test.

The effect of the schemes was to pay unemployed youth more than those at school or college. Unemployed persons aged under 18 years received \$36 per week UB whereas those at school were granted a maximum of \$16p.w.<sup>10</sup> Among those aged 18 to 20 years, the UB entitlement was \$53p.w. whereas tertiary students could receive up to \$32p.w. (if living at home) or \$50 p.w. if living independently (Table 3.4). These data reflect the conflicts that arise when resources are scarce between providing income support and distorting choices. As we have seen in Part 2 of this report, there was a considerable amount of poverty among young unemployed people in 1981. Nevertheless, changes since then have focused more on raising payments to young students than to assisting those young who are searching for work.

In 1985, the government announced the re-structuring of payments to provide an age, rather than activity, related system. The two goals of this change were to provide an integrated scheme of educational allowances, and to encourage young people to remain in education and training 'particularly in circumstances where worthwhile employment opportunities are not available to them' (Australia, Treasury, 1985b, p.18). SAS and TEAS were subsumed into a new allowance, AUSTUDY, and allowances for younger secondary students were increased significantly. These have now been linked to the level of income support available to the unemployed. This matching has been facilitated by the continued relative decline in the level of unemployment benefits for 16-17 year olds which were fixed at \$50 per week in 1986. Clearly, such a low level of benefits for this age group can only be justified on the grounds that they will continue to be substantially dependent upon their parents

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10. For families with one dependent child.

TABLE 3.4: INCOME SUPPORT FOR YOUTH, 1981 TO 1988.

|                                    | Maximum allowance rates <sup>1</sup> (\$/wk) |      |      |      |                 |      |      |      |
|------------------------------------|--|------|------|------|-----------------|------|------|------|
|                                    | 1981   | 1982 | 1983 | 1984 | 1985            | 1986 | 1987 | 1988 |
| <b>16 to 17 year olds</b>          |  |      |      |      |                 |      |      |      |
| <b>In Education</b>                |  |      |      |      |                 |      |      |      |
| secondary at-home <sup>2</sup>     | 16   | 17   | 22   | 25   | 28              | 35   | 40   | 50   |
| tertiary at-home                   | 32   | 32   | 39   | 41   | 45              | 48   | 50   | 50   |
| away-from-home/indep. <sup>3</sup> | 50   | 50   | 60   | 63   | 74              | 73   | 73   | 76   |
| <b>Unemployed</b>                  |  |      |      |      |                 |      |      |      |
| standard rate <sup>4</sup>         | 36   | 36   | 40   | 45   | 45 <sup>5</sup> | 50   | 50   | 25   |
| means tested supplement            | -  | -    | -    | -    | -               | -    | -    | 25   |
| young homeless <sup>5</sup>        | -  | -    | -    | -    | -               | 73   | 73   | 76   |
| <b>18-20 year olds</b>             |  |      |      |      |                 |      |      |      |
| <b>In Education</b>                |  |      |      |      |                 |      |      |      |
| secondary at-home                  | 16   | 17   | 22   | 25   | 28              | 35   | 45   | 60   |
| tertiary at-home <sup>6</sup>      | 32   | 32   | 39   | 41   | 45              | 48   | 55   | 60   |
| away from home/indep. <sup>7</sup> | 50   | 50   | 60   | 63   | 69              | 73   | 80   | 91   |
| <b>Unemployed</b>                  |  |      |      |      |                 |      |      |      |
| standard rate                      | 53   | 58   | 69   | 79   | 85              | 88   | 91   | 91   |
| <b>21 years and older</b>          |  |      |      |      |                 |      |      |      |
| Single U.B. <sup>8</sup>           | 53   | 58   | 69   | 79   | 85              | 95   | 105  | 108  |

1. All educational allowances, except for those made on an 'independent' basis, are income tested on parents' incomes. Payments to the unemployed are not income tested on parents income except for the 16-17 year olds from 1988. Rental allowances for the long-term unemployed are not included.
2. Including family allowance for the first child. Family allowance was incorporated into the allowance from 1986.
3. Generally only for tertiary or 'independent' secondary students.
4. Unemployment benefit before 1988, Job Search Allowance thereafter.
5. For those unemployed for over 6 months the rate was \$50p.w.
6. Introduced July 1986 for young people without parental support.
7. These rates also apply to older tertiary students.
8. Rates current in June of each year, except for 1988 (January).

Source: Budget Statements, various years.

for support<sup>11</sup>. In recognition of this, the government introduced a homeless allowance for youth not able to live with their families (with very strict eligibility requirements). It was set at \$73 per week in 1986.

In May 1987, the government announced the abolition of unemployment benefits for youth under 18, and their replacement with a Job Search Allowance (JSA). At the same time, it was announced that the waiting period before benefit could be received by those leaving education (aged under 21) was to be increased from 6 to 13 weeks. Job Search Allowance, unlike unemployment benefit, but like AUSTUDY, is income tested on parental incomes (though the payment for JSA will not be reduced below \$25). The way this policy was announced - as an abolition of unemployment benefits, rather than as the introduction of parental income testing - no doubt reflects the political 'dubiousness' of unemployment benefits discussed above. The political message conveyed by this policy was clear. In the Treasurer's words

This new structure gives a positive message to those who leave school - either find work or undertake training. (Australia, Treasury, 1987b, p.6)

As well as these changes for the youngest age group, the government re-introduced an intermediate level of unemployment benefit for youth aged 18-20 in 1986. This has been set equal to the AUSTUDY living away from home/independent allowance.

In general the changes seem to have been successful in meeting the government's goals of rationalising income support, and increasing incentives for educational participation. Whether the educational system will have the resources to adequately meet this increased demand is an issue outside the scope of this study. Nevertheless the way in which this demand is met will be crucial to whether increasing educational participation by youth amounts to a productive investment, or merely a way of reducing labour force participation.

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11. Indeed, after some indecision, the government has decided that this allowance will generally be paid to the **parents** of the student - though it will be taxable in the hands in the student.

The assessment of these programs in terms of their impact on poverty is not clear-cut for it depends crucially upon the economic relationships between youth and their families. For youth not able to rely upon their families, and also not eligible for the new allowances for homeless young people, these reforms imply a much reduced level of income. For low income families as a whole, the recent policy changes are a mixed blessing. Whilst the level of unemployment benefits for youth from these families will remain essentially the same, the increased waiting period (to three months for school leavers) will impose severe financial strains on many families. On the other hand, for low-income families with older secondary student children, the increased level of assistance may save many from poverty.

The expanded reliance upon parental income testing also poses dilemmas<sup>12</sup>. On the one hand it targets assistance to those families most in need, but on the other it increases effective marginal tax rates on those families. This may provide strong disincentives for their labour force participation, particularly of spouses. Equity concerns, too, must arise where income is not an adequate indicator of parental resources. As discussed in Part 2 of this report, the economic resources of the self employed are often not measured by income, and so youth in these families may receive unintended benefits.

### 3.7 Microeconomic policies for the unemployed: training, job creation and community schemes

Whilst income support policy is important in alleviating the poverty associated with unemployment, there can be no doubt that the best answer to this problem is the reduction of unemployment itself. As noted in earlier sections, current constraints upon macroeconomic policy are such that there is little hope that the average rate of unemployment will be much reduced in the near future. Nevertheless, there is much that can be done to ensure that **individuals** who become unemployed are quickly returned to work. If the duration of unemployment can be reduced, then the association between poverty and unemployment can be weakened. In addition, if schemes can make the

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12. As well as the the expansion of parental income testing to the young unemployed, from 1988 the eligibility conditions for the 'independent' (non-parental income tested) AUSTUDY allowance will be tightened.

unemployed more productive (and, therefore, more employable), there may be a marginal increase in the amount of employment in the community.

Currently the federal government classifies its labour and employment policies into five main areas. These comprise industrial relations, placement/information services (the CES), training programs, job creation and employment assistance, and community based schemes including Aboriginal programs. Within the last three of these categories one recent study has listed over 30 schemes currently active (Kesteven, 1987). A summary of the expenditures and numbers affected by major programs in these three areas is presented in Table 3.5.

TAFE expenditures are included with other training programs in Table 3.5 although it is questionable whether we should consider them as general education or labour market programs. If we exclude general grants to TAFE, the main expenditure on labour market training programs lies in trade training projects<sup>13</sup>. These include rebates to employers for employing apprentices together with special apprenticeship support programs designed to complement traditional training and reduce wastage. New initiatives, such as the Australian Traineeship scheme which was originally intended to provide some 75,000 places by 1988, have been slow to get off the ground.

The bulk of expenditure on Job Creation and Employment Assistance programs is in two main programs. JOBSTART provides wage subsidies to employers to employ people from disadvantaged groups (e.g. the long term unemployed). The Community Employment Program had a similar target population but was involved in the creation of labour intensive projects to provide short term employment. It was announced in May 1987 that no new approvals would be given for CEP projects after the 1986-87 fiscal year.

Finally, the Commonwealth government supports a number of community based programs to provide less formal training and general support to the young unemployed in particular. As can be seen from the expenditure/numbers ratio, the main program in this area, Community Youth Support Scheme, is much

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13. The expenditure in Table 3.5 only reflects a small part of the costs to government of TAFE, with some three-quarters of the cost being paid by State governments.

TABLE 3.5 MAJOR COMMONWEALTH EMPLOYMENT AND TRAINING ASSISTANCE SCHEMES, 1987-88

|  | Estimated 1987-88            |                      |
|--|------------------------------|----------------------|
|  | Expenditure <sup>1</sup> \$m | Numbers              |
| <b>Training programs</b>                       |                              |                      |
| T.A.F.E.                                       | 309.7                        | n/a                  |
| Trade Training                                 | 129.3                        | 115,300 <sup>2</sup> |
| Australian Traineeship Scheme                  | 43.9                         | 13,000               |
| Youth Training Program                         | 30.7                         | 13,100               |
| Adult Training Program                         | 29.7                         | 12,700               |
| Skills Training Program                        | 22.6                         | n/a                  |
| Jobsearch Training Program                     | 1.4                          | 16,000               |
| <b>Job Creation and Employment Assistance</b>  |                              |                      |
| JOBSTART                                       | 100.0                        | 55,000               |
| Community Employment Program <sup>3</sup>      | 100.0                        | 12,000               |
| New Enterprise Incentive Scheme                | 3.5                          | 600                  |
| Industry and Regional Employment Assistance    | 21.6                         | 1,800 <sup>2</sup>   |
| Mobility Assistance                            | 3.9                          | n/a                  |
| <b>Community Based and Aboriginal Programs</b> |                              |                      |
| Community Youth Support Scheme                 | 36.9                         | approx. 90,000       |
| Community Volunteer Program                    | 3.7                          | 15,000               |
| Community Training Program                     | 19.0                         | 5,200                |
| Aboriginal Employment and Training             | 72.8                         | 12,700               |

1. These expenditures give different totals to those presented in table 3.1 because TAFE expenditures are not included in Table 3.1, and some general administrative expenditures are not included in this table.

3. May include some double counting.

4. No new approvals from 1987-88.

Source: Skills for Australia, appendix B.

less intensively funded than the more formal programs. The Aboriginal Employment and Training programs encompass a range of training and employment subsidy programs directed specifically at Aboriginal people.

Whilst income support expenditures have remained the main fiscal outlay directly related to unemployment, the last few years have seen increased emphasis upon these other policy instruments of education and training policies. In particular, greater integration is being sought between income support and labour market policy. The changes to the structure of income support described above, increasing incentives for youth to undertake education and training, are one part of this policy. More generally, the Minister for Social Security has recently called for the converting of unemployment benefit from 'a minimalised safety net into a springboard to real participation for unemployed into the cultural, social and economic affairs of the community' (Howe, 1987, p.9).

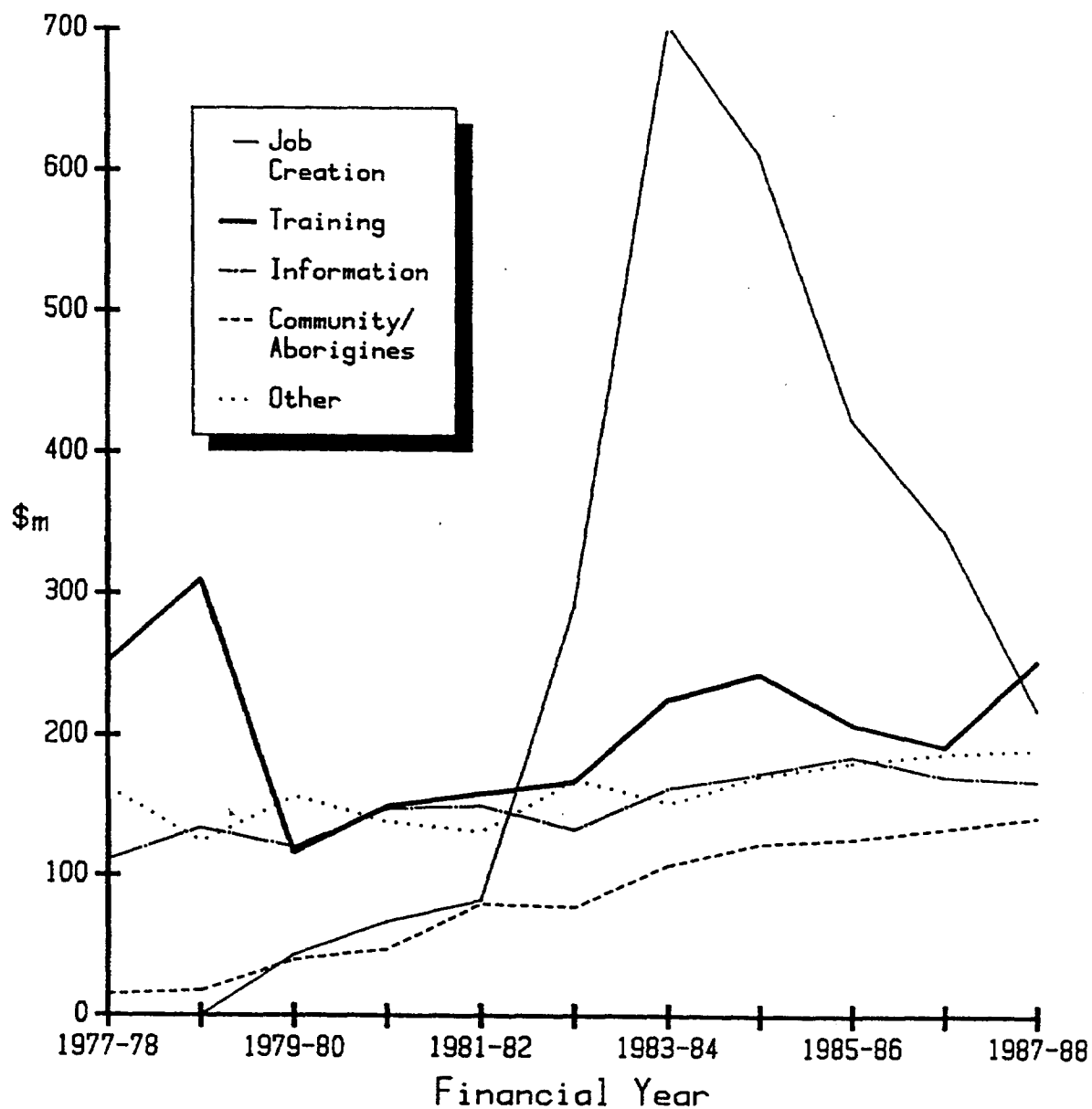
The main changes directed towards these goals have so far been confined to young unemployed. As well as increasing the waiting period and reducing the rates of benefit, policies have been proposed to provide more 'guidance' for the unemployed in their job search. Youth in receipt of the job search allowance will, after six months, be required to accept a 'suitable' job or undertake vocational training if offered. If this policy can serve to reduce long-term youth unemployment, it must be applauded, but how it will work in practice remains to be seen. Such a policy obviously depends crucially upon the availability of jobs or training.

Broad trends in federal government labour market policy can be discerned from the expenditure levels described in Table 3.1. In Figure 3.6 trends in these outlays on labour and employment programs are depicted graphically. Whilst the categorisations used are only approximate, they do provide a useful guide to the directions of expenditure.

Two major changes of policy are evident from Figure 3.6: the reduction in training expenditures at the beginning of the period associated with the phasing out of the National Employment and Training Scheme (NEAT), and the great changes in expenditures on job creation programs between 1981-82 and currently. The latter reflected the introduction of the Wage Pause Program



Figure 3.6 Commonwealth Expenditure on Labour Market Programs, 1977-78 to 1987-88  
(in 1986-87 dollars)



Source: Table 3.1

in December 1982, and its replacement with the Community Employment Program in 1983 - subsequently abolished.

The abolition of this program has been described by the Treasurer as reflecting the government's desire to shift policies 'in favour of training to provide permanent employment' (Australia, Treasury, 1987a, p.6). It would seem that there is scepticism that programs such as the CEP can increase the long term employment prospects of those participating in projects. Whilst a full evaluation of the scheme has yet to be published, a report of the Auditor-General in June 1987 was very critical of the program's effectiveness (Australia, Auditor-General, 1987).

By abolishing CEP, the government expects to save \$100m in 1987-88 and \$200m once the program is fully wound down. The main compensating increases in expenditure will be in income support for students (increased by \$139m between 1986-87 and 1987-88) and in government funded labour market training programs (increased by \$77m). At the same time the government expects to save some \$74m as a result of the changes in income support for unemployed youth (\$44m from the introduction of the 3 month waiting period).

These figures indicate the magnitude of the governments policy shift in this area. Job creation and income support programs which are targeted directly on the unemployed are being sharply cut back. On the other hand, support for alternative activities in education and training is being increased (though it remains to be seen how the institutional arrangements necessary to facilitate such changes will be implemented). Yet overall resources are still tightly constrained. Whilst the move away from income support for the unemployed to more positive labour market policies holds great promise, it may be a mistake to weaken the 'safety net' until we are sure that those who leave the 'springboard' are able to reach the trapeze.



## CONCLUSION

Whilst the evidence of the hardship and poverty described in Parts 1 and 2 of this report is clear, policy options to resolve these issues are not. Indeed, since the data used in Part 2 were collected, the economic climate has become decidedly more chilly. A further recession in 1982 increased unemployment dramatically, particularly among those families with dependent children.

The post-war solution to unemployment, macroeconomic demand management, has been constrained by other goals. Whilst the period 1983 to 1985 saw strong economic and employment growth, the desires to reduce inflation and to control the currency value and trade deficit have been the prime policy goals at other times. With the further growth in uncertainty in world financial markets in the second half of 1987, any return to buoyant labour market conditions seems a long way off.

With such a prospect, income support policies to prevent poverty among the unemployed become all the more important. The evidence presented here suggests that such policies have so far failed to meet this goal. In Part 1, we surveyed a vast range of studies pointing to the problems faced by those unemployed and reliant upon state provided income support - problems which marginalise the unemployed in our society. In the second part of this study, we presented further data illustrating the impact of the unemployment of individuals upon the incomes of families. Compared to many other countries of similar wealth, the Australian performance at providing income support for those bearing the burden of the recession has been, at best, mediocre.

Why has there been so little commitment to provide adequate income support for unemployed people? The answer that constraints on government expenditure prevented greater effort, merely raises further questions. The absolute level of government spending is not of fundamental concern to macroeconomic demand management: what counts is the balance between expenditures and receipts. The constraints upon government expenditure faced by recent Australian governments have been of a political and economic nature. With the de-regulation of the Australian financial markets, the

current government has found itself needing to play to the psychology of such markets by slimming down the welfare state.

More generally, political concern for the plight of the unemployed has been relatively weak for a number of reasons. Because choice can never be totally excluded as a cause of the unemployment of particular individuals, income support for this group has lacked the legitimacy it has for many other groups. The experience of unemployment is heavily concentrated on particular demographic groups, regions and families. As a result, many Australians never see it as a **personal** problem rather than as an **economic** problem - an increase in unemployment is always portrayed by the media as bad for the government, rather than for the people without jobs.

A case can be made that the low volume of income support transfers provided by the Australian welfare state is a result of the political difficulties of financing a heavily targeted program financed from general revenue. Whilst targeting those most in need of assistance, the political support of those who are missed will be lost. But we would not advocate the introduction of unemployment insurance in Australia now. Insurance based schemes have major problems of ensuring equitable coverage, and a recession is certainly not the time for their introduction.

The recent Family Package would seem to be as much as we could hope for from income support policy in the current environment. However, it alone will not achieve the Prime Minister's goal of eliminating child poverty (Saunders and Whiteford, 1987). In the light of the limitations of macroeconomic and income support policy in alleviating workforce poverty, attention is now shifting to microeconomic policy options.

Recent years have seen a clear shift in government income support policy for the unemployed, attempting to ensure that the unemployed do not become segregated from the employed workforce. This has involved an increased emphasis upon microeconomic policy instruments such as training, as well as changed administrative arrangements to reduce the extent of long term reliance on benefits. To date, most of these policy changes have been confined to the young unemployed, for whom income support in education and training has been improved, while available income support for the unemployed

has been restricted, and administrative processes instituted to discourage long term unemployment.

Government rhetoric now places education and training at the forefront of policies to ameliorate the problems of unemployment. Indeed, such an emphasis upon microeconomic policies rather than income support characterises the systems of countries such as Sweden which have maintained low levels of unemployment. However such countries also spend a good deal more than Australia on labour market policy.

So far, there seems to be little evidence of the federal government being prepared to match the rhetoric on microeconomic policy with fiscal commitment. The policy changes that have been made may well prove to be improvements, but without increased expenditure are unlikely to have any major impact upon the generally pessimistic picture we have painted.

In being constrained by fiscal considerations, microeconomic policies are perhaps just as restricted as income support policies in relieving the problems of unemployment. Possibly however, the problems of mobilising political support may not be so great. Education, training and job creation are politically more saleable than income support, though it would seem that government expenditure of any type is difficult to sell to the financial markets.

In any event, we should not expect measures aimed solely at increasing the quality of labour supplied to the labour market to have any major impact upon unemployment unless demand for labour is also increased<sup>14</sup>. A more optimistic goal for such policies in the current climate will be for them to assist in preventing the formation of a pool of low skill workers experiencing long duration unemployment. Such a spreading of the burden of unemployment is perhaps the best that realists can expect.

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14. Unless, that is, the effect of increases in education and training is to remove people from the labour market, reducing the **supply** of labour.



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**APPENDIX A: GUIDE TO DIFFERENT ESTIMATES OF POVERTY FOR 1981-82 IN RECENT SWRC RESEARCH.**

The current method of updating the Henderson poverty line is based on the value of Household Disposable Income Per Capita (HHDIPC) for the Australian economy. The HHDIPC for any year may be subject to revision, because the relevant national accounts measures of Household Disposable Income have been changed or because estimates of the total population have been revised. The HHDIPC for 1981-82 has been subject to considerable revision.

Hence different publications produced by the Social Welfare Research Centre (and others), describing the incidence of poverty in 1981-82 have used differing poverty lines. The three poverty lines used in different SWRC publications based upon analysis of the ABS **Income and Housing Survey 1981-82** are shown in Table A.1.

**TABLE A.1: DIFFERENT POVERTY LINES USED IN SWRC ANALYSIS OF 1981-82 INCOME AND HOUSING SURVEY**

| Source of data<br>on poverty line | Standard poverty line for<br>couple (head working) with<br>two dependants - average of<br>September and December qtrs<br>1982 |
|-----------------------------------|---|
| 1) IAESR August 1984              | \$ 194.10   |
| 2) IAESR August 1985              | \$ 197.80   |
| 3) IAESR March 1987               | \$ 184.50   |

**Note:** IAESR = Institute of Applied Economic and Social Research.

Six different estimates of the overall incidence of poverty for 1981-82 which have been published by SWRC are presented in Table A.2 overleaf. These estimates have varied both because of the different poverty lines used, and because of the different populations covered. The table indicates where the estimate was published, the coverage of the analysis and the level of the poverty line that was used.

**TABLE A.2: ESTIMATES OF THE INCIDENCE OF POVERTY FOR 1981-82  
IN SWRC RESEARCH**

|   | Publications/tables<br>in which poverty estimate appeared |        |        |        |        |        |
|---|---|--------|--------|--------|--------|--------|
|   | (a)   | (b)    | (c)    | (d)    | (e)    | (f)    |
| Overall Incidence<br>of poverty <sup>(1)</sup>            | 11.6%   | 11.8%  | 13.4%  | 13.7%  | 13.8%  | 11.2%  |
| <b>Population sub-<br/>groups excluded</b> <sup>(2)</sup> |   |        |        |        |        |        |
| Persons in non-private<br>dwellings                       | -   | -      | -      | -      |        |        |
| Child of the Household<br>Head                            | -   | -      | -      | -      |        |        |
| Self-employed   | -   |        |        |        |        |        |
| Aged under 20   | -   |        |        |        |        |        |
| Persons of non-working<br>age                             |   |        |        |        |        | -      |
| Number of income units<br>in population ('000)            | 5119.0  | 5473.2 | 5473.2 | 5473.2 | 6633.4 | 5589.9 |
| Poverty line used <sup>(3)</sup>                          | 1   | 1      | 2      | 2      | 2      | 3      |
| Equivalence Scale <sup>(4)</sup>                          | h.d   | h.d.   | h.d.   | h.s.   | h.d.   | h.s.   |

**Key to publications**

- (a) Bradbury, Rossiter and Vipond (1986), table 1.1
- (b) *ibid.*, table 2.1
- (c) Bradbury and Vipond (1986), table 3
- (d) *ibid*
- (e) Vipond, Bradbury and Encel (1987), table 1
- (f) This paper, Table B.1

**Notes**

- (1) Proportion of income units below the poverty line
- (2) A '-' indicates that the population subgroup was excluded from the analysis
- (3) See table A.1
- (4) 'h.d.' - Henderson detailed equivalence scale,  
'h.s.' - Henderson simplified scale.

**APPENDIX B**

Complete tables  
(including notes and  
sources) for  
statistics referred  
to in Part 2.

TABLE B.1: STATISTICS ON POVERTY AMONG THE AUSTRALIAN POPULATION OF WORKING AGE AND AMONG THE STUDY POPULATION, 1981-82.

|                              | Australian Working-age <sup>(1)</sup><br>Population   | Study <sup>(2)</sup><br>Population | Study Population as<br>% of Working-age<br>Australian Population |
|------------------------------|---|------------------------------------|--|
| Income Unit<br>Type          | Incidence of poverty (%)<br>Number of income units in poverty ('000)<br>Number of income units in population ('000) |                                    | % of those<br>in poverty<br>% of total                           |
| Couple without<br>dependants | 4.3%<br>43.6<br>1,005.7   | 3.0%<br>23.3<br>786.3              | 53.4%<br>78.2%   |
| Couple with<br>dependants    | 9.4%<br>184.2<br>1,956.1  | 8.0%<br>137.3<br>1,719.0           | 74.5%<br>87.9%   |
| Single parent                | 13.6%<br>5.1<br>37.6  | 13.1%<br>3.5<br>27.3               | 70.2%<br>72.7%   |
|                              | 37.8%<br>89.9<br>237.6  | 19.7%<br>13.5<br>68.9              | 15.1%<br>29.0%   |
|                              | 13.5%<br>92.5<br>687.4  | 10.2%<br>51.9<br>509.1             | 56.1%<br>74.1%   |
| Person 15-24                 | 15.6%<br>73.9<br>473.9  | 11.2%<br>39.6<br>353.7             | 53.6%<br>74.6%   |
| Person 25-64                 | 11.0%<br>75.1<br>685.6  | 9.0%<br>44.5<br>496.8              | 59.3%<br>72.5%   |
|                              | 12.1<br>61.0<br>505.9   | 6.6%<br>16.4<br>249.1              | 26.9%<br>42.2%   |
|                              | TOTAL   | 11.2<br>625.7<br>5,589.9           | 7.8%<br>330.3<br>4,210.3   |

**Notes:**

(1) Defined to include all income units in which head was aged less than 65 years.

(2) Study population defined as those income units with head aged less than 65 with head or spouse in the labour force (employed or unemployed) for the whole of the 1981/82 financial year.

Source: Australian Bureau of Statistics (1986), *Income and Housing Survey*, 1981-82 Unit Record File.

**TABLE B.2: STUDY POPULATION : THE NUMBER AND INCIDENCE OF INCOME UNITS IN POVERTY ACCORDING TO THE EMPLOYMENT STATUS OF THE MAIN WORKER, 1981-82**

| Income Unit Type       | Mainly full time, no un-employment          | Mainly full time, some un-employment | Mainly part time, no un-employment | Mainly part time, some un-employment | Total   |
|------------------------|---|--------------------------------------|------------------------------------|--------------------------------------|---------|
|                        | Incidence of poverty (%)                    |                                      |                                    |                                      |         |
|                        | Number of income units in poverty ('000)    |                                      |                                    |                                      |         |
|                        | Number of income units in population ('000) |                                      |                                    |                                      |         |
| Couple                 | 2.2%  | 18.5%                                | (6.5%)                             | (30.5%)                              | 3.0%    |
|                        | 16.3  | 6.9                                  | (0.6)                              | (0.3)                                | 23.3    |
|                        | 742.5                                       | 32.9                                 | 9.8                                | (1.1)                                | 786.3   |
| Couple with dependants | 5.5%  | 36.3%                                | (25.3%)                            | 46.6%                                | 8.0%    |
|                        | 87.6  | 44.1                                 | (2.3)                              | 3.2                                  | 137.3   |
|                        | 1,581.3                                     | 121.7                                | 9.2                                | 6.8                                  | 1,719.0 |
| Single parent M        | (7.4%)                                      | (55.5%)                              | (0.0%)                             | 0.0%                                 | 13.1%   |
|                        | (1.7)                                       | (1.8)                                | (0.0)                              | (0.0)                                | 3.5     |
|                        | 23.5  | 3.3                                  | (0.5)                              | (0.0)                                | 27.3    |
| Single parent F        | (5.0%)                                      | 58.5%                                | (14.4%)                            | (68.9%)                              | 19.7%   |
|                        | (2.0)                                       | 8.4                                  | (1.9)                              | (1.2)                                | 13.5    |
|                        | 39.2  | 14.5                                 | 13.5                               | (1.7)                                | 68.9    |
| Person 15-24 M         | 1.9%  | 36.3%                                | 31.7%                              | (30.1%)                              | 10.2%   |
|                        | 7.1   | 39.9                                 | 3.0                                | (1.9)                                | 51.9    |
|                        | 383.4                                       | 110.1                                | 9.4                                | 6.3                                  | 509.1   |
| Person 15-24 F         | (0.6%)                                      | 38.0%                                | 21.2%                              | 29.4%                                | 11.2%   |
|                        | (1.4)                                       | 31.4                                 | 3.2                                | 3.6                                  | 39.6    |
|                        | 243.8                                       | 82.9                                 | 14.9                               | 12.2                                 | 353.7   |
| Person 25-64 M         | 2.9%  | 36.5%                                | (21.2%)                            | 70.2%                                | 9.0%    |
|                        | 11.9  | 25.9                                 | (2.3)                              | 4.3                                  | 44.5    |
|                        | 408.6                                       | 71.2                                 | 10.8                               | 6.2                                  | 496.8   |
| Person 25-64 F         | (1.2%)                                      | 40.6%                                | (7.5%)                             | 42.3%                                | 6.6%    |
|                        | (2.4)                                       | 10.4                                 | (1.6)                              | 1.9                                  | 16.4    |
|                        | 197.2                                       | 25.7                                 | 21.6                               | 4.6                                  | 249.1   |
| TOTAL                  | 3.6%  | 36.4%                                | 16.7%                              | 42.3%                                | 7.8%    |
|                        | 130.5                                       | 168.4                                | 14.9                               | 16.3                                 | 330.3   |
|                        | 3,619.6                                     | 462.4                                | 89.6                               | 38.8                                 | 4,210.3 |

**Notes:** Bracketted figures are estimates with an approximate relative standard error greater than one third.

**Source:** Australian Bureau of Statistics (1986), *Income and Housing Survey 1981-82*, Unit Record File.



**TABLE B.3: INCOME UNITS WITH AT LEAST ONE FULLY EMPLOYED WORKER :  
INCIDENCE OF POVERTY BY EMPLOYMENT STATUS**

| Income<br>Unit<br>Type    | Employment Status of Fully Employed Worker <sup>(1)</sup>                               |                              |                          |
|---------------------------|---|------------------------------|--------------------------|
|                           | Wage and Salary<br>Earners  | Self-employed <sup>(2)</sup> | Total<br>W&S and S.E.    |
|                           | Incidence of poverty <sup>(3)</sup> (%)   |                              |                          |
|                           | Number of income units in poverty ('000)<br>Number of income units in population ('000) |                              |                          |
| Couple without dependants | (0.0%)<br>(0.2)<br>555.6  | 10.0%<br>14.2<br>141.7       | 2.1%<br>14.4<br>697.3    |
| Couple with dependants    | 1.1%<br>12.6<br>1,155.8   | 17.9%<br>63.2<br>353.2       | 5.0%<br>75.9<br>1,509.0  |
| M                         | (1.2%)<br>(0.2)<br>(1.7)  | (41.1%)<br>(1.5)<br>(62.9)   | (7.8%)<br>(1.7)<br>(5.3) |
| Single parent             | (1.7%)<br>(0.6)<br>34.6   | (62.9%)<br>(1.3)<br>(2.2)    | (5.3%)<br>(2.0)<br>36.8  |
| F                         | 1.0%<br>3.5<br>338.3  | 14.0%<br>3.0<br>21.3         | 1.8%<br>6.5<br>359.6     |
| Person 15-24              | (0.3%)<br>(0.7)<br>226.2  | (9.8%)<br>(0.3)<br>3.1       | (0.4%)<br>(1.0)<br>229.3 |
| F                         | (0.3%)<br>(1.0)<br>324.2  | 14.0%<br>9.1<br>64.9         | 2.6%<br>10.1<br>389.2    |
| Person 25-64              | (0.4%)<br>(0.7)<br>178.7  | (18.7%)<br>(1.4)<br>7.6      | (1.1%)<br>(2.1)<br>186.3 |
| TOTAL                     | 0.7<br>19.4<br>2,832.0  | 15.7<br>94.1<br>597.8        | 3.3<br>113.6<br>3,429.8  |

**Notes:**

(1) Employed full-time for all of 1981-82 and employed at time of survey.

(2) Includes employers.

(3) Bracketted figures are estimates with an approximate relative standard error greater than one third

**Source:** Australian Bureau of Statistics (1986), *Income and Housing Survey, 1981-82*, Unit Record File.

**APPENDIX C: THE RELATIONSHIP BETWEEN MEASURED INCOMES AND HOUSING  
EXPENDITURES OF THE SELF-EMPLOYED IN 1981-82**

This appendix examines the relationship between the housing expenditures and incomes of the self-employed recorded in the Income and Housing Survey. As Covick (1986) notes, there are several reasons why income as recorded in such a survey may not be a good indicator of the economic resources flowing to a self-employed household. It is difficult, even at a conceptual level, to separate out income flows between an enterprise and a person, when they are essentially the same. Practical difficulties make effective measurement even more problematic.

In discussing the National Accounts measures of incomes from 'non-farm unincorporated enterprises' Covick raises four reasons why the recorded data might understate the 'true' incomes. These can be summarised as the effects of: tax evasion (illegally not declaring income), tax avoidance (allowable deductions of business expenses which might contain consumption spending), home production, and capital gains. We would expect similar concerns to face the data collected in the Income and Housing Survey. The method of collection of the survey data implies that it will be measured similarly to taxable income.

The income survey, unlike the taxation system however, did not record negative income flows, treating income 'sources' with such flows as producing no income during the year. Thus in the calculation of total income the survey did not allow income from wage and salaries to be offset by such negative incomes, as is the case in the taxation system. This 'quarantining' of losses is more akin to the definitions of income used by the Department of Social Security.

Of course, many of these issues are also relevant to income units dependent upon wages or salaries. However, it is generally accepted that the self employed are more likely than others to be able to take advantage of these ambiguities. Using data on incomes and expenditures it may be possible to get estimates of the extent to which the incomes of the self employed are understated, compared to the non self employed income units.

This is because expenditures on commodities are more likely to reflect 'true' (or permanent) incomes than is declared income. This appendix uses this assumption together with the assumption that the self employed have identical consumption tastes (for housing) to the non self employed to attempt to estimate the extent of this undeclared income. Only one commodity is used here, housing expenditure, because of the limitations on expenditure data in the Income and Housing survey. Life insurance and superannuation expenditures were also recorded, but for these commodities the assumption of identical tastes is harder to make.

To estimate a simple model we assume that housing expenditure,  $h$ , can be modelled as a linear function of income and demographic variables  $X$ . That is:

$$h = a + b(y+us) + Xc + v \quad (1)$$

where:

$y$  = measured income  
 $u$  = unmeasured income of self employed  
 $s = 0$  if not self employed  
 $1$  if self employed.  
 $v$  = random error  
 $a, b, c$  parameters to be estimated.

This can be rearranged to get

$$h = a + by + bus + Xc + v \quad (2)$$

$$\text{or } h = a + by + qs + Xc + v \quad (3)$$

Equation (3) can be estimated by OLS, and  $u$ , the unmeasured income of the self employed, be derived from;

$$u = q/b$$

This model can be generalised to look at the self-employed in several industries separately, by including additional regressors,  $s_i$ , which indicate membership of particular industries.

A major short-coming of this approach is that it does not enable the measurement of unmeasured income in-kind in the form of housing consumption (e.g. the business paying for housing costs). In fact, if this is a means by which the self employed are able to be better off than their income would suggest, then our estimate will impute them a **negative** unmeasured income. This is because they will spend less on housing than other people of similar incomes. To control for this in part we have excluded those income units

living in a 'dwelling/non-dwelling combined' as their recorded housing costs may have included some payments due to the business. Otherwise all income units with recorded housing costs and annual incomes, and with at least one member in the workforce for the full year, were included in the analysis.

A further issue is that housing expenditures may well be determined by incomes over a period longer than a year. In this case, the fact that the self employed in a particular industry are spending more on a commodity than expected may be due simply to the fact that their income has recently dropped. We can incorporate this concept of permanent income into our analysis to a limited degree by modifying equation (1), thus;

$$h = a + bd(y+us) + Xc + v \quad (4)$$

where  $d$  is an industry specific ratio of trend income to actual income. That is, for each industry,  $d$  is defined to equal:

$$(\text{predicted income})/(\text{actual income}),$$

where predicted income is that income predicted for the industry in 1981/82 on the basis of the previous 5 years (with more weight to latter years). The income variable used for this calculation was the National Accounts concept of **Gross Operating Surplus of Unincorporated Enterprises** for the years 1976-77 to 1980-81 in the different major industry groups. For individuals, who were not self employed, it was given the value of one. This assumes that fluctuations in industry incomes will not affect wage and salary earners in the industry.

A further, and probably more intractable problem, is that this approach only gives an **average** level of unmeasured income. The actual extent is likely to vary considerably from individual to individual. This has particular relevance for poverty research, where the distribution of incomes is critical.

Table C.1 presents some estimates of unmeasured income for different industries in 1981-82 calculated using the method discussed above. Other predictor variables included in the model are: income unit type (3 categories), sex of head, age (4th order polynomial), number of dependants, education level of head (10 categories), industry of main labour force

TABLE C.1: ESTIMATING THE EXTENT OF UNDERRECORDING OF INCOME BY THE SELF EMPLOYED, ON THE BASIS OF HOUSING EXPENDITURE

| Industry of main<br>Workforce Member | Increase<br>In Housing<br>Expenditure<br>for Self<br>Employed<br>in Various<br>Industries |           | Deflated<br>by Income |           |
|--------------------------------------|---|-----------|-----------------------|-----------|
|                                      | No<br>Employees   | Employees | No<br>Employees       | Employees |
|                                      |   |           | (\$'000)              |           |
| Agriculture                          | 2.34  | -0.11     | \$5.4                 | (\$0.3)   |
| Mining                               | -13.00  | -10.76    | (\$30.0)              | (\$24.8)  |
| Manufacturing,<br>utilities          | 0.54  | 3.60      | \$1.2                 | \$8.3     |
| Construction                         | -1.55   | -9.04*    | (\$3.6)               | (\$20.8)  |
| Retail, wholesale                    | 6.07  | 12.20*    | \$14.0                | \$28.1    |
| Tran, comm.                          | 2.12  | 16.09*    | \$4.9                 | \$37.1    |
| Fin, pub.ad.                         | 20.30*  | 20.80*    | \$46.8                | \$48.0    |
| Comm. serv.                          | 8.20  | 2.35      | \$18.9                | \$5.4     |
| Rec, other, none                     | 10.10*  | 20.32*    | \$23.3                | \$46.9    |
| TOTAL                                | 5.21*   | 7.36*     | \$12.0                | \$16.9    |

**Notes:** \* indicates absolute 't' value greater than 2.  
Income is inflated by deviation from trend incomes.  
Income units in dwelling/non-dwelling combined excluded.  
Bracketed figures in the last two columns are negative.

participant (10 categories) and geographic region (12 categories). The dependent variable used was current housing costs, and the income variable used was total income of the income unit for the year.

Industry was included as a separate explanatory variable in order to separate an overall industry variation in housing cost from that of the self employed only. This is necessary because of the crudity of measurement of the other variables, particularly region. That is, housing costs and industries are likely to vary at a more detailed level of regional aggregation than that used here. Also note that some other likely predictors of housing costs, most prominently tenure type, have not been included in the analysis because these variables themselves may be affected by income levels.

The last two columns of table C.1 are an estimate of the extent to which the incomes of the self employed in various industries are under-recorded relative to employees. This table indicates a large degree of income understatement for the self-employed in most industry categories, with the largest discrepancy for those in the financial and public services industries. The only statistically significant **underexpenditure** on housing is among employers in the construction industry. This may possibly indicate the receipt of some income in kind from their enterprises (e.g. on-site housing or provision of construction materials for personal consumption).

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