

Well Being, Welfare and Equality in Australia

James Cox

*Peter Travers and Sue Richardson, **Living Decently: Material Well Being in Australia**, Oxford University Press, Melbourne, 1993*

*Peter Saunders, **Welfare and Inequality: National and International Perspectives on the Australian Welfare State**, Cambridge University Press, Melbourne, 1994*

These two books are examples of the empirical tradition in Australian poverty research. The centrepiece of the Richardson and Travers volume is the Australian Standard of Living Survey, which was designed by the authors and conducted by AGB:McNair. Much of the Saunders volume, which summarises work that has been undertaken by the author and his colleagues over the past ten years, is based on an analysis of Australian data and comparable data for other countries that have been assembled by either the OECD or the remarkable Luxembourg Income Study. Both books defend Australia's welfare state. The authors fear that developments in the 1980s, such as the more vigorous means-testing of benefits and the increasing tendency towards the delivery of social services by non-government organisations, may weaken public support for what they consider to be fragile institutions. But the two books reach very different conclusions about the effectiveness of Australia's private and governmental institutions in providing an acceptable level and distribution of material well-being.

Full Income vs Cash Income

Travers and Richardson take an optimistic view. Their summary is as follows:

When we use these more complex measures [of poverty and inequality], our account of material well-being in Australia at one point in time is a generally positive one. The broad picture is not one of stark contrasts in terms of inequality or of poverty. In addition, we find only a weak tendency for misery to accumulate in the same groups. That is, those who are on the

bottom of one measure of well-being are rarely on the bottom of all measures. (p.224)

This quotation encapsulates a major part of their argument: the commonly used measures (such as income statistics and poverty lines) are too simple to capture the wide divergence in individual circumstances that exists in Australia. Several factors determine whether or not a given income is adequate. These include: the number of people who are supported by the income; the amount that is paid in tax; whether or not the household owns its home and consumer durables; the amount of domestically produced food and other goods and services; whether the household has financial assets or debts; and the amount of cash and assistance in kind that is provided by family, government and other organisations, and individuals. 'Full income' would take account of these other components as well as cash income. There is no particular reason to expect that the distribution of full income would be closely related to cash income. Indeed, one might expect cash income to be a particularly unreliable measure of overall well-being since it is frequently used to determine income-tax liabilities and access to government-provided income and services.

Unfortunately, the authors provide rather few details about the Australian Standard of Living Study, and the questionnaire is not printed as an appendix to it. It is not easy, therefore, to retrace the authors' steps. In summary, broadly defined income is more equally distributed than cash income, and those who have a high (or low) cash income do not necessarily have a high (or low) full income. Expenditure is more equally distributed than equivalent income (that is, after-tax cash incomes, adjusted for differences in household needs) (p.47). Certain groups, such as aged couples, are far less likely to be in the lower part of the *full* income distribution than in the lower part of the equivalent income distribution. Those most likely to be in the bottom part of the full income distribution are pensioners and beneficiaries, unskilled workers and couples with children (p.191).

These analyses were concerned with the resources available to support material well being, not the quality of life that is supported by these resources. The Australian Standard of Living Study also examined the levels of health, happiness and participation in social activities of households, and how each of these is related to income. There is a 'positive but small association' between the level of material well being on the one hand, and participation in social activities and assessments of health and happiness on the other (pp.155-6). In summary: 'Australia looks to be highly egalitarian in two dimensions. One is that the distribution of resources and of quality of life is very equal. The other is that these two distributions are largely independent of each other, so that having a high level of material resources is neither necessary nor sufficient in order to have a high quality of life' (p.48). This is, in my view, the most valuable contribution that Travers and Richardson make.

Two other aspects of the book are less admirable. First, chapters 1-5 include essays (on, for example, mobility between social 'classes' defined on the basis of occupation) that appear to be digressions from the main arguments in the book. Second, in their final chapter ('One Nation or Two?'), Travers and Richardson ar-

gue that Australia's relatively egalitarian society is the result of full employment during the 30 years to 1975, 'sensible' housing policies, and the availability of adequate income support and government-provided goods and services. They are concerned that, for example, the growth of superannuation may lead to divisions between insiders (who are able to support themselves) and outsiders (who will have to rely on means-tested pensions), since this could erode support for maintaining adequate levels of means-tested pensions. But it is equally arguable that greater reliance on self-provision in retirement would enable such government assistance as becomes available to be directed to the more disadvantaged, thus maintaining a relatively egalitarian outcome. This would be particularly important if the amount of assistance that government can provide to the aged becomes increasingly limited by Australia's future economic circumstances and the ageing of the population. And although one can readily agree that government should ensure universal access to education and health care, it is by no means certain that government has to provide or (except for low-income earners) to subsidise these services itself. Travers and Richardson do not discuss the relative advantages and disadvantages of government and private effort in the provision of welfare-state services.

The 'Two Saunders' Problem

Peter Saunders' book discusses many issues concerning the relationship between economic growth and spending on welfare, economic rationalism and the welfare state, the distribution of the benefits of welfare-state expenditure, and inequality and poverty. Its use of data from other OECD countries enables Australian developments to be viewed in comparative perspective.

As noted, Saunders reaches a different view from that of Travers and Richardson about the degree of inequality in Australian society. The results of a comparative analysis 'lend little support to the view that Australia is an egalitarian nation, at least in regard to its income distribution' (p.210). Income inequality in Australia and New Zealand 'increased between 1981-82 and 1985-86, reflecting an increase in the income share of the top quintile, the increase in inequality being slightly greater in Australia' (p.127). 'The estimates of poverty presented here reveal a disturbing trend through the 1980s, despite the economic and employment growth in the period and the objectives and policies of the Labor government' (p.275). A possible reason for this divergence of views is that Saunders relies on official income data and hence largely excludes consideration of many of the aspects of material well-being that Travers and Richardson were able to incorporate through the Australian Standard of Living Study. Whereas Travers and Richardson mainly consider data for the late 1980s, Saunders also considers changes during that decade.

Peter Saunders's book has great virtues. He takes particular care to explain his analysis to non-specialist readers and to acquaint them with the strengths and weaknesses of the data under consideration. The implications of statistical analysis are carefully explained. And the book is always pleasant and easy to read. Nevertheless, it suffers throughout its earlier chapters from the 'Two Saunders' problem.

It seems to me that two competing thinkers are battling for supremacy within Saunders's book: the social policy analyst (Saunders One) who is passionately concerned with the achievement of greater equality, and the economist (Saunders Two) who is only too aware that everything (including greater equality) has its cost. Observe the two of them battle things out in, for example, the following passage:

If the welfare state is to be judged a success at any level, it must be shown to have reduced, if not eliminated, poverty. Existing research which points to the persistence of poverty in rich countries like Australia thus brings into question the effectiveness of the welfare state by challenging its most fundamental achievement. However, the existence of poverty does not, in itself, point to the failure of existing welfare programs, only to the fact that they have not gone far enough. Whilst it is true that poverty still remains amidst affluence in such countries, it is also true that without income support and other anti-poverty programs, things could be much worse. But before one can make such claims with any confidence, the issue of how poverty is conceived and measured has to be resolved. (p.12)

Both Saunders would surely agree with the first sentence. The second sentence is contributed by the economic rationalist, Saunders Two. Saunders One, the social policy analyst, contributes the next two sentences. (If asked, Saunders Two would surely point out that the persistence of poverty does not, by itself, establish either that policies have failed or that they have not been tried hard enough.) Saunders Two then takes over again and writes the last sentence. Indeed, the reader discovers, on finishing the book, that the issue of how best to measure poverty is still far from resolved.

This is not to belittle Saunders's achievement. Many of us, I suspect, are torn in our thinking between the desire to see policies implemented that will reduce the extent of poverty and inequality, and concern about the consequences of such policies for the economy and the wider society. Indeed, I suspect that the tension between the electorate's demand for social justice on the one hand, and the preconditions for growth in an economy where capital and labour are increasingly subject to international competition on the other, will be a major theme in Australian politics during the remainder of the 1990s and beyond. I am disappointed, therefore, that Saunders's book, for all its virtues, provides so little guidance as to how such tensions can best be alleviated or managed. The explanation for this, in my view, is that he presents too rosy a view of the success of Australia's welfare state institutions and is not sufficiently ready to consider modifications to them.

Excessive Optimism

Peter Saunders's view of the welfare state is too optimistic, for three reasons. First, he frequently emphasises his commitment to equality. For example: "The welfare state must adjust to the constraints within which it operates but the reduction of inequality, which is its fundamental aim, remains the most important and worthy of

objectives' (p.13). A commitment to greater equality is a perfectly reasonable one to make. But devoting public policy to the pursuit of greater equality is likely to involve some sacrifice of society's other objectives. Welfare-state benefits and the taxes that finance them reduce people's need to provide for themselves and for others, and also their capacity to do so. There is, for example, less need for families or neighbours to help aged or disabled relatives, or to care for children, if the government provides or subsidises services to do these things. A desire to reduce the burden for carers was an important reason for government provision of some services. In other instances, the reduction in private effort was an unintended consequence of welfare-state programs. Because of this reduction in private effort, welfare-state programs have been less successful in promoting greater equality than is at first apparent. The effect on private welfare is a factor that should be taken into account in deciding how much government welfare we should have.

Second, there is the vexed issue of the relationship (if any) between welfare-state expenditures, the taxes that finance them, and overall economic performance. Saunders argues that no clear relationship exists between the average rate of economic growth in OECD countries and either total government spending, social spending or spending on transfer programs. These conclusions are based on analysis of differences in growth rates in OECD countries between about 1960 and the mid-1980s. Rather different conclusions flow from historical studies of individual countries over the 50 years since the end of World War II (see, for example, Giersch et al., 1994, for Germany). It may be that similar forces have been at work in all OECD countries and that these have been missed in the regression analyses. In any event, a number of European governments (Germany, Italy, Sweden) are becoming increasingly concerned about whether their social programs can be maintained over the longer term and are proposing unpopular measures to wind back the extent of their commitments.

Third, Saunders does not give much attention to who is paying for the welfare state. The chapter on the social wage presents information on the share of benefits received by groups defined according to the age and composition of the household. But similar information for the share of taxation is not presented. Had this been done, Saunders would have found that couples with children pay a higher share in taxes than the share of benefits they receive. This is a disturbing finding because there is a good deal of evidence in both books to suggest that many families are experiencing financial hardship. For example, of couples with two children in 1988, sizeable numbers claimed that they had, over the past year, experienced situations where there was not enough money to buy food (14 per cent), clothing (34 per cent) and health care (20 per cent). The percentage of aged couples in the same situations were 4.4 per cent, 11 per cent and 3 per cent respectively (Saunders, p.283). But it is the couples with children who are more likely to be paying taxes and the aged couples who are more likely to be receiving benefits. For example, an ABS (1992) study indicated that couples with dependent children paid \$251.19 a week in tax on average and received \$189.17 in government benefits. The corresponding figures for retired couples aged 55 or more without children were \$47.66 a week in

taxes and \$295.72 a week in benefits. An increase in taxes to finance a higher level of benefits does not always result in an improvement in equity (see Cox, 1993a, for further discussion).

The Need for Change

Saunders's chapter on economic rationalism and welfare is one of his most interesting. He fears that the liberalising and efficiency-enhancing trends in the public sectors of OECD countries may lead to 'the dismantling of the welfare state as we know it' (p.158).

Supporters of the welfare state naturally fear the consequences of possible changes. Even so, simple opposition to change is unlikely to be very helpful. As I have argued elsewhere (Cox, 1993b), our current and likely future social and economic circumstances will require a good deal of rethinking about how social and economic objectives can best be advanced. Change is already occurring. Superannuation is now being encouraged. The federal government's recent White Paper on employment suggested that the private sector could do more in training disadvantaged job-seekers. Greater competition in the provision of health and welfare, and greater use of 'brokerage' arrangements in providing services to the aged and the disabled, have been much discussed. Above all, there is a need for clear thinking about those things that can best be done by government and those things that are better left to private effort. Social policy research, which is so generously supported by the taxpayer, should be able to contribute to this process of rethinking.

Finally, it may be unfair to criticise an author for writing a different book from the one the reviewer would have written. But it is worth noting that none of the authors of these books discusses the extent to which impediments (such as labour-market regulation) to the smooth working of markets may create the poverty and inequality that social policy must then address. This issue cannot easily be studied by analysing official data but is well worth pursuing.

References

- Australian Bureau of Statistics (ABS) (1992), *1988-89 Household Expenditure Survey, Australia: The Effect of Government Benefits and Taxes on Household Income*, AGPS, Canberra (Cat. No. 6537.0).
- Cox, J. (1993a), 'Does the Family Need a Family Policy?', *Policy*9(3): 10-14.
- (1993b), 'Are There Better Ways to Achieve Distributional Objectives?', *Economic Papers* 12(3): 11-21.
- Giersch, H., K. Paque & H. Schmieding (1994), *The Fading Miracle: Four Decades of Market Economy in Germany (2e)*, Cambridge University Press, Cambridge.