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## **REVIEW**

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### **Coping with Economic and Social Change**

*Peter Saunders, **The Ends And Means Of Welfare: Coping With Economic and Social Change In Australia**, Cambridge University Press, Australia, 2002*

*Reviewed by **Michael Keating***

Saunders believes that the unprecedented prosperity of the 1990s has been overshadowed by social decline, apparent in a widespread perception of growing inequality, institutional decline and uncertainty. The root cause of this paradox, according to Saunders, is the emergence of economic rationalism and neo-liberalism as the dominant policy paradigm. This social philosophy in favour of market supremacy is hostile to state intervention. Instead the market has become an end in itself, rather than one of the means of achieving social objectives. Accordingly Saunders' 'basic purpose is to question the wisdom of continuing down a path in which economic forces, factors and arguments dominate the ends and means of "the good society" '.

In particular, Saunders is concerned that the welfare system is seen by those driving the neo-liberal reform agenda as an obstacle to achieving better policy outcomes. He alleges that while the population is increasingly dependent on welfare benefits to supplement more dispersed and insecure market incomes, 'The focus [of welfare policy] has shifted away from the powerful distributional impact of welfare to its alleged detrimental effects on incentives'. In addressing these issues Saunders explores what is expected of the welfare system, focussing on how responsive the system is to broader social changes and community values.

The core of this book, and its best part, is in Part II which discusses the changing socioeconomic landscape. The four chapters in this part cover successively employment and unemployment, income and living standards, poverty and exclusion, and inequality. The first of these chapters considers the various dimensions and causes of mass unemployment, which Saunders properly identifies as the major policy failure of the last thirty years. In the next chapter on income and living standards there is a scholarly discussion of the different concepts of income and their relation to living standards. The hardly surprising conclusion is that money does not buy happiness, but those with higher incomes tend to report greater life satisfaction and happiness. Perhaps the most interesting finding is that despite the increase in incomes in the 1990s, a sample survey of public opinion found that over 70 per cent of the population consider that their living standards had either not changed or had declined in 1998-99 compared to two years previously.

The chapter on poverty and exclusion discusses the meaning and causes of poverty, and makes the best possible case for setting a poverty line to guide both research and policy in Australia. In Saunders' view the concept of social exclusion, which is relatively new in Australia, should complement and not replace a focus on poverty. The two concepts represent different notions of need and what is required to achieve an adequate standard of living.

The discussion of inequality begins with its meaning and relevance for policy. Saunders reports the now well-established finding that the inequality of earnings has increased, as has the distribution of work. Despite frequent references throughout the book to increasing inequality, however, Saunders does not really establish that overall income inequality has increased. Indeed, Saunders largely ignores the most complete measure cited — equivalent disposable income — which shows inequality declining between 1986 and 1999-2000 (Table 7.2). And if allowance is made for the increased provision of 'income-in-kind' through the introduction of Medicare and the spread of services such as increased education enrolments and child care, then other studies not cited by Saunders have shown that the distribution of income became more equal between the mid 1980s and the mid 1990s.

Overall each of these chapters covering our changing socioeconomic landscape provides an authoritative review of the topic. Recent research findings and the various arguments are mostly well and fairly summarised before Saunders presents his own personal conclusions. Consistent with his view that the legitimacy of the welfare system depends heavily on community support, Saunders also draws on a survey of community attitudes as they affect these issues. These survey findings are of most interest where value judgements, such as what represents an adequate income, are at issue. Community opinion regarding more technical issues, such as the causes of unemployment, are a less useful basis for policy, but even here the general tendency not to blame the victim of unemployment, suggests broad support for the traditional principles underpinning our welfare system.

My quibbles regarding this part of the book are, first, I think Saunders' concept of the welfare system focuses excessively on the income support system. I would like to have seen the relationships between support in cash and in kind addressed at greater length. In particular, these relationships are relevant to the pursuit of an 'active society' and social inclusion as advocated by proponents of a 'Third Way'. Second, I would also have preferred more discussion of the impact of changing household composition on the distribution of income. Third, although Saunders is persuasive I am still not convinced that in a society where poverty is defined relative to community norms, that policy would be assisted by official endorsement of a poverty line. In any event, it could be argued that we have essentially achieved the same purpose now that parliament has defined an adequate income for a single pensioner as representing 25 per cent of male average weekly total earnings.

But these quibbles notwithstanding, this part of the book dealing with the demands our changing economic and social structures are making on the welfare system succeeds admirably. I recommend it as an excellent background text for any student of public policy as well as for someone who has a particular interest in the welfare system.

Where the book is less convincing is its attempt to show that the welfare system is now being threatened by neo-liberalism, and that a major policy reversal is called for. Unfortunately Saunders does not provide any single connected statement of his arguments regarding the neo-liberal threat — rather they are scattered throughout the text. But Saunders' key arguments appear to be that neo-liberalism is responsible for:

- Giving a greater role to market forces, particularly through deregulation of the labour market, that has produced greater inequality, uncertainty and stress;
- An obsession with smaller government resulting in welfare cuts and tighter targeting of assistance that have prevented the welfare system from being able to respond adequately;
- The refusal by the state to support the demand for labour through Keynesian policies, and instead relying exclusively on supply side policies; and
- Welfare 'reforms' to reduce the role of the state and to increase the role of incentives, market mechanisms and the obligations on welfare recipients, on the grounds that the structure of the welfare system is the major cause of unemployment rather than the failure of government economic policies.

There is little doubt that Saunders' attack on neo-liberalism and its alleged influence, as briefly outlined above, will strike a chord with many social scientists. Many will welcome the endorsement of their prejudices by Saunders who has a deserved reputation as an expert on social policy. In my view, however, Saunders largely fails to make his case because of:

- Critical assertions that are factually wrong;
- Contentious opinions which are not really substantiated; and
- The nature of the policy recommendations, which largely represent modification rather than revolution, and are hardly consistent with the extreme nature of the criticisms expressed.

First, despite Saunders frequent references to welfare cuts his own data show little change in overall government expenditure and taxation in the last twenty years. Moreover, irrespective of politicians' rhetoric, tax cuts have not been a priority in practice. Changes in the income tax rate scale have hardly altered the average tax rate for any income group since the mid 1970s, and all new tax packages — including the most recent GST package — have essentially amounted to only handing back the proceeds of fiscal drag.

Turning more directly to social expenditures, as is only normal, priorities have been reviewed since the early 1980s. Programs have been more tightly targeted and there has been an attempt to strengthen compliance. But the savings from all these various decisions were used to fund new social policy initiatives, and have been substantially supplemented by decisions to transfer resources to social policy. In fact the net impact of government *decisions* to save and to spend on social policy between 1983-84 and 1995-96 amounted to an *increase* equivalent to 2.5 per cent of GDP. These decisions are also largely responsible for social expenditures increasing their share of total Commonwealth outlays from just under half at 48 per cent to 62 per cent over the period from 1982-83 to 1996-97 (Keating and Mitchell: 138). Since 1996-97 it seems fairly certain that the *New Tax System* and other welfare reforms have further added to the net expenditures (including tax expenditures) on social policy.

As a result of these spending decisions access to health, education, aged care and child care services have been expanded greatly over the last twenty years. For example, Medicare did not exist twenty years ago, and there have been dramatic rises in the proportion of young people continuing their schooling to year 12 and in higher education. It is true that real expenditure per student in higher education has been cut — arguably beyond what could be expected from productivity increases — but that is not true of all other publicly provided human services where real expenditure per capita on the client population has increased. Similarly income support levels have increased faster than average weekly earnings for all pensions and benefits over the last twenty years, and the assistance for children and families who are renting has increased massively. This increased assistance has meant, for instance, that by January 1997 a single income family with a dependent spouse and two children, earning two thirds of average weekly earnings and renting privately, received 33.3 per cent of their income from government cash transfers compared to only 4.4 per cent of their income in January 1982. Indeed while real earnings increased only marginally over this period, the disposable income of this family increased by 24 per cent, and after housing costs it increased by as much as 75 per cent.

Equally Saunders' suggestion that governments have not been willing to intervene fiscally to support employment is not consistent with the evidence. Estimates of the change in the real structural budget balance prepared by Abbot (1996) show that the scale of the discretionary fiscal intervention has increased in response to each recession since 1952. The largest such intervention was in response to the most recent recession in 1991-92, and the facts do not support the contention that governments have eschewed Keynesian demand management policies.

Second, in matters of opinion, Saunders asserts a causal connection between neo-liberalism and deteriorating social outcomes but does not demonstrate it. Perhaps the best example to illustrate this point is in relation to the labour market. Thus it is highly debateable how far neo-liberals were responsible for deregulation of the labour market. The shift to enterprise bargaining is probably the single

most important change, and this was initiated by the ACTU, hardly a bastion of neo-liberalism. More importantly, while Saunders explicitly recognises that the increased dispersion of earnings could be in response to changes in the structure of employment or changes in relative rates of pay, his discussion largely proceeds on the assumption that it is relative rates of pay that have changed. Even if that were true, it appears that earnings have become more dispersed in most developed countries and this trend started in the mid 1970s — well before deregulation of the Australian labour market — so it is not clear why restoration of centralised wage determination would reverse the process. But a more likely explanation for the increased dispersion of earnings is that the structure of employment has changed substantially with all the growth being concentrated in highly paid jobs and a loss of lowly paid and middle level jobs (Keating forthcoming). Of course, it is then possible that this changing employment structure reflects government decisions to free up product markets by reducing protection and increasing competition, but the weight of the evidence in a number of studies is that technology is the main explanation.

Third, given the nature of the threat that Saunders believes the welfare system is facing, one might have expected him to recommend substantial changes to the present set of policies. However, his policy prescriptions represent only very modest changes. The most important recommendation is to spend much more money, but of itself that would not change the policy paradigm, although as Saunders argues it would require a substantial change to taxation and recognition of the positive contributions of the welfare state. Significantly Saunders' solution to increase the equality of income distribution would involve 'a modest increase in marginal tax rates restricted to the top 5 per cent of taxpayers', and an 'effective minimum wage'. The modification in the tax scales would have negligible impact on the distribution of incomes and Australia already has a centrally determined minimum wage that in fact is higher relative to median earnings than in almost all other countries (Metcalf, 1999).

Saunders also raises — without explicitly endorsing — the major proposal for a guaranteed minimum income sufficient to provide a poverty line income without any work-oriented conditions. But such a proposal seems no more likely to gain acceptance now than when it was originally put forward in the report from the Henderson Poverty Enquiry nearly thirty years ago. Even the advocates of a guaranteed minimum income recognise that if the minimum income were to be equal to current social security entitlements, which is less than Saunders favours, then revenue neutrality would require *all* income to be taxable at a universal marginal tax rate of as much as 57 per cent (Dawkins *et al.*, 1998).

Moreover when it comes to unemployment, although Saunders objects to the way mutual obligation is currently administered, he recognises that some form of work testing has always been required in Australia, and that the current emphasis on 'mutual obligation' meets his own key test of enjoying public support. Thus Saunders proposals for reducing unemployment largely amount to more of the same — maintaining economic growth accompanied by expansion of public employment and other labour market programs. More radical suggestions to share

the work are also canvassed, without addressing the prior question of whether this is really necessary because we cannot create enough jobs. However, Saunders does recognise the practical difficulties of matching skills and gaining acceptance from those who presently have the work. Saunders cites attitudinal evidence suggesting popular support for work sharing, but we do not really know how far people would be prepared to share their own work and take a commensurate reduction in their incomes. As almost all people report that they are not high income earners, perhaps they have in mind that any sacrifices will be made by someone else, in which case redistribution of work will be no easier than redistribution of incomes and arguably less necessary.

In sum Saunders attack on the reforms affecting the welfare state over the last two decades lacks credibility. Saunders recognises the pressures for change and opposes a return to collective provision within a bureaucratically organised and controlled system underpinned by a large public sector. Perhaps this is why Saunders' alternative proposals are not significantly different to the directions that reforms have in fact been taking over the last two decades. But even so it is surprising that Saunders does not pursue further some of the ideas from the British Third Way. This alternative approach would involve a shift in priorities away from income support focussed on the individual in favour of more collective support for communities within which individuals could then realise their potential. It would, however, require a shift in power away from the centralised state to allow local communities more scope to shape their own destinies.

Personally I hope that Saunders in his next book will apply his considerable understanding of social relations and social policy to be more forward looking. In my view the best way to challenge neo-liberal extremism is to preserve the best features of the welfare *state* by reconstructing it in favour of a welfare *society*, and Saunders could make a valuable contribution to meeting that challenge.

## References

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