FEELING the PINCH

Its opponents argue that Labor’s seven years of government have overseen a massive cut in living standards to restore profit share. Bob Hawke insists that households have benefited, and that social justice will be his government’s legacy. So what’s the answer? Or is there an answer? Greg Mahony contends that neither the picture nor the solutions are as simple as the critics believe.

At the height of his popularity, former New York Mayor Ed Koch would warm-up approving crowds with a rhetorical: “How’m I doin’?” Last year a much less popular Koch was dumped in the Democratic primaries and was replaced as Mayor by David Dinkins, the first Afro-American to hold this position.

Other than for the Profumo scandal, Harold Macmillan is remembered for little if not his assertion to the British of the 1960’s that: “You’ve never had it so good!” After seven years of Labor in government, cabinet ministers, pollsters and political commentators have re-worked the old question of just how are they doin’? And the legion of undecided voters of early March have now spoken on behalf of the country and given us an answer. Unlike Mayor Koch, Labor has won a reprieve but the response of voters to the Macmillan type challenge seems no clearer now that the people have spoken.

Our perceptions of how well we’re doin’ no doubt influences our opinion of how they’re doin’. In the recent election working women and men weighed up their individual and collective positions over the life of ‘their’ Labor government and living standards must have been an element in their calculus. Like the counting of the polls the calculus might not be so straightforward. Certainly there is a view in some trade union and left circles that the reductions in the real wage (that is wages adjusted for inflation) have not been matched by gains in other areas for working people. This perception is hard to dispel when households see their living standards declining for one reason or another. A vocal concern with your absolute and relative position in terms of income need not reflect narrow self interest. It can and should reflect a class interest.
In the face of conflicting anecdotal evidence regarding the course of living standards and income inequality in Australia over the last seven years, the need for a round up of the available evidence is clear.

The academic view doesn’t always gel with either popular conceptions or with political priorities, but I need to stick with what I know.

Economists discuss income distribution in two ways. First, discussion of income inequality focuses on the distribution of income between individuals or households and how this distribution changes through time. The major factors thought to have an influence are changes in wage rates, hours worked and levels of employment, access to and levels of government assistance such as family allowances and unemployment benefits, taxation scales and government charges, housing costs, and changes in income streams from the ownership of property such as dividends, rents and interest income. This kind of examination of income distribution between individuals in households is referred to as the personal distribution of income.

Patterns in the personal distribution of income are no doubt intimately intertwined with changes in the so-called functional distribution of income. This is the second way in which economists discuss income distribution. The general idea enters into popular discourse via pronouncements on the wage or profit share of national income. Broadly, the formal discussion centres on income in the form of wages, rent and profits flowing from the sale of labour power or from the ownership of land or capital. This is not to say that these analytical categories exactly correspond to income classes, as it is evident that many individuals and households derive income from more than one of these sources. The immediate concern with changes in the functional distribution of income is not with individual household incomes but with the effects of changes in the shares of national income going to wages, real and profits on the overall growth rate of the economy. For example, the ‘restoration of the profit share of national income’ that we have experienced since 1983 was lauded as an essential step in providing corporations with relief from a financial constraint on investment. That is, increased income flows for private capital was meant to assist in accumulation and provide an (economically) sustainable higher rate of growth for the economy and thereby allow for improved living standards in the longer term.

In spite of the recent upsurge in investment it is often doubted whether it is flowing into the sectors of the economy that most require restructuring and expansion if sustainable growth is to be achieved. The bulk of the investment boom appears to be in finance and construction and concentrated in data processing areas of the non-financial sectors. Furthermore with the slowing rate of growth of the economy even this investment boom appears to be petering out if surveys of business intentions are any guide. Will the labour movement view a collapse of investment as a betrayal of the restraint they have shown over the last seven years?

It is well known that the Accord from 1983 has heralded in a period of sustained reductions in real wages. That is, nominal wages buy less even though they are growing and wage earners find they are falling behind because of price increases. In spite of the fact that this was not the stated intent of the original Accord document, wrangles such as the Medicare adjustment, discounting for the effects of the depreciation of the Australian dollar associated with the deterioration in the terms of trade in 1985, and various labyrinthine devices relating money wage increases to productivity and tax/wage trade-offs have resulted in reductions in real wage rates.

Such rates are not, however, the sole indicator of earnings. The path of real earnings has been more steady with only slight reductions in some of the last six years. Things other than wage rates affect earnings, such as overtime worked, an increased proportion of part-time jobs, career structures that contain annual increments, and possibly over award payments. (Those in cash or kind are of course not recorded by the statistician.) These factors have probably had differential effects on earnings under the period of the Accord. Among the pluses, it could be argued that the increased probability of finding and holding a job since 1983 should have eased some of the pain from any adverse effects on the welfare of working people.

The material effects of this increased probability are perhaps best revealed in the data on household disposable income. Here, as when discussing earnings, there is the trap of the average and the risk that it obscures more than it reveals. Treasurer Keating is quick to trot out the data on household disposable income when his credentials as a defender of traditional Labor values are challenged.

But what is the full picture with respect to trends in household disposable income? The Prime Minister, in the ‘Great Debate’, approvingly quoted research carried out at the University of New South Wales by the Social Welfare Policy Centre to the effect that lower income households are much better off under his government. A perusal of the Centre’s recent discussion paper by Bruce Bradbury, Jennifer Doyle and Peter Whiteford shows that Mr. Hawke’s speech-writers are competent polemists in their selectivity. This report concludes:

Whilst the limited nature of our analysis does not allow a conclusive response to the statement that ‘the rich are getting richer and the poor are getting poorer’, we do feel confident in asserting that increases in employment and income support for families with children over the last seven years have significantly improved the circumstances of the poorest groups. The rise in capital incomes does seem to have benefited the very rich and those with significant savings (e.g. the middle class aged). Middle income families however, have not done so well, particularly when incomes after housing costs are considered. Unfortunately for governments, median income families also tend to contain median voters.

Andrew Peacock could have easily drawn directly on
these last two sentences for one of the opportunities to respond that he passed up in that TV debate.

So a fuller picture of living standards as measured by household disposable income demands some account of government income support for families, income from capital assets and housing costs. Let’s have a brief look at the experience under Labor in these areas. Income support for families is part of the broader social wage concept that under the Accord is seen as a means of supplementing household income in a time of restraint of wages and earnings.

The period since the Social Security Review of 1985 has seen substantial increases in rates of Family Assistance Supplements and Family Allowances. Many social welfare payments are now indexed to inflation. Some attempts have been made to remove so called poverty traps in the social security system. Changes to unemployment benefits have meant increases for most categories with the cuts or changes in the youth dole being the obvious exception. Fiddling with the payments for young unskilled unemployed people with tags such as Job Research Allowance may rankle any anti-Victorian attitudes to poverty but perhaps these moves need to be judged against the achievement of higher retention rates in secondary education and allowances that encourage these higher retention rates. On the other hand, the large number of homeless youth on the streets of our major cities probably have a less kind assessment of the equity of some of these changes.

Upper middle income families may perceive themselves disadvantaged by some of these changes principally when they are means tested out of one or another benefit. These same families (or high income earners) neglect to mention the disproportional benefit they receive from the tax deductibility of some family related expenditures.

Hawke’s rash 1987 promise that “no child will be living in poverty by 1990”, may appear to have been met if one is very pedantic about the parameters of that original promise. But that pedantic nuance is not what the electorate heard. Rather they understand, quite reasonably, a promise to eradicate child poverty. The government will continue to be hounded by their transparent failure to do what the electorate understood they were promised. Still, unlike the median voters referred to above, those who see the eradication of child poverty as a top priority of any government don’t tend to swing elections.

Unlike the children in or out or poverty, the position of those with income earning assets appears to have improved. This is especially true of the middle class aged but may be questioned in the case of sole parents in this category. For every young household struggling with high mortgage payments it is worth remembering that there is an asset holder or two out there enjoying higher interest income. Among these, the new rentiers, our superannuants, you may find your own parents or grandparents. For those with wealth who are still working, the fringe benefits tax and the capital gains tax changes don’t seem to have had dramatic effects on disposable income.

What impact there has been was more than compen-
inequality - that the proceeds of growth never ‘trickle down’. But this is just what I want to do, and I will argue the case on two grounds.

The first takes us back to the functional distribution of income and its relationship to growth and therefore employment. In the light of the balance of payments constraint on growth it would seem certain that under either a Labor or a Liberal/National Party government tight fiscal policy will be pursued as part of an austerity program. In this climate of fragile growth a fully fledged attempt to directly and substantially increase real wages or labour’s share of national income seems doomed to failure.

The openness and added vulnerability of the economy since financial deregulation makes a collapse of output and national income almost certain. This would be accompanied by capital flight and an indefinite suspension of investment plans, or what more colourful commentators like to call a ‘strike of capital’.

My second reason for arguing the priority of economic growth is linked to the first in a narrow economic sense but also has a broader and perhaps longer lasting political dimension. We now have a framework in the Accord and the social welfare system to make sustainable improvements in income distribution and sustainable improvements in living standards at least as quickly as feasible in the current political climate and with the existing ownership of capital in this country. So we need to maintain the existing focus and demand the restructuring of the economy and the development of the manufacturing sector in particular.

Future bargaining within the above framework should include growth of jobs through restructuring and industrial policy to promote overall growth of the manufacturing sector. The tax/wage trade-off has extended the legitimacy of trade union concerns into federal government fiscal policy. This is just one of several areas where such legitimacy has been won. It needs to be further extended into such areas as housing policy, child care and even public transport - the very areas that have a direct impact on living standards and the welfare of low income households. I see the maintenance and extension of this legitimacy as the best bulwark against the campaign of the Right against all forms of collectivism. The next Liberal/National Party government will have learnt something about the rise and fall of Thatcherism in Britain. That is, that the strategic significance of Thatcherism has been less to do with any viable economic programs than with a political program to destroy collectivist institutions and to denigrate collectivist strategies for political change. If progressive forces fail to thwart these attacks on collectivism then inequality of income can only get worse.

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