

ECONOMIC NOTES

REDUCTIONS OF THE SOCIAL WAGE

Within a month, the federal government will bring down the 1979-80 budget. It won't seem to be quite such a horrific budget as were those brought down in 1977 and 1978, because the press has made a point of the recently increased revenue from the excise duty on crude oil, and because workers in particular have come to anticipate horror budgets from the Liberal-National Country Party government. Most workers are only too well aware of the government's attempts to reduce the real value of take-home pay during the past three years. But workers' standards of living have declined with or without any reductions in real wages. A worker's social wage includes more than take-home pay: it includes a variety of "social services" provided by the state. And reductions in the provision of "social services" have been as much a characteristic of the two Fraser governments as have been their efforts to reduce the real value of the wages bill. Broadly, the reasons for the reduction of the social wage are the federal government's concern to bolster rates of profit throughout the economy, its concern over a real or imagined budgetary crisis, and its concern to repudiate expectations built up within the working class during the earlier Whitlam years that the power of the state is accessible to workers.

In recent years, in the United Kingdom in particular, the term "social wage" has attained popular usage. The social wage includes more than "take-home pay": it includes also the value to a worker of services provided by the state — by federal and state governments. For each worker it includes a share in the value of public housing, urban development projects, public passenger transport, health care facilities, education, and the variety of pensions and allowances available under the provisions of the so-called welfare state. The idea behind adding the values of these services to wage payments as conventionally understood is

that they are important components of the basic standard of living and would have to be financed by workers themselves out of money wages if they were not provided by the state. So, for example, the cost of supporting people retired from the workforce would have to be borne by the working sons and daughters of aged people if there were no old-age pension.

Insofar as the state has taken over part of the cost of supporting workers and their families, the employing corporations have been able to pay lower wages than they would otherwise have had to pay to ensure the health and compliance of the workforce. Companies have not only been spared directly: the least paid Australian workers have had to contribute proportionately more to the state revenue which finances "public services" than have all other taxpayers other than those with the highest incomes. (1) In other words, provision to workers of non-monetary components of the social wage has largely been at the expense of take-home pay.

The last ALR reported that the share of wages in Australia's national income has declined rapidly over the last couple of years. At the same time, unemployment has increased to the point where there are now at least half a million workers involuntarily unemployed. (2) In what follows, it will become clear — even allowing for considerable caution in interpreting the figures — that, as well, the real value of crucial components of the social wage of employed workers has declined markedly during the period of two Fraser governments.

There are several reasons for caution in interpretation. First, little is known about the distribution of components of the social wage between wage-earners. The middle class may benefit more from much of the state's expenditure on public passenger transport and education, for example, than do workers. (3) During this past financial year, federal expenditure on non-government schools in the six states was

anticipated to increase by 30 per cent over the actual expenditure in 1977-78 to \$253.7 million, while expenditure on government schools was expected to decline by 14.3 per cent (in nominal terms!) to \$372.4 million (4); and much of the transfer of expenditure was to be to schools for the children of the wealthy rather than to Catholic parochial and diocesan schools. The second reason for caution is that much of state expenditure supports those who administer the various programmes or the likes of medicos in private practice. Third, just what expenditure should be regarded as elements of the social wage is not a question to which all people would give the same answer. Fourth, some parts of general revenue grants to the states may be spent on components of the social wage but are not taken into account in the following figures. Notwithstanding the several reasons for caution, however, it is possible to make several firm judgements from the evidence of changes in expenditure.

If budget estimates for 1978-79 turn out to have been accurate, the federal government expenditure or its contributions to the social wage will have decreased by \$4.2 billion in real terms during the period 1976-77 to 1978-79 — by \$1.2 billion in the first year, by \$1.3 billion in the second and by an estimated \$1.6 billion in the third. (5) These figures are based on a conservative adjustment for the effect of inflation. It should be noted that they exclude changes in the provision of unemployment benefits but include changes in federal expenditure on various training schemes. Total expenditure on education rose by 5.8 per cent over the three year period; but this increase was very largely accounted for by increased aid to non-government schools. Expenditure on health fell by roughly 30 per cent in real terms in each year. Expenditures on urban development and on public housing have been cut even more ruthlessly: public housing, in fact, was expected to receive only \$363 million in nominal terms in 1978-79 as compared with \$562 million in 1975-76, \$549 million in 1976-77 and \$507 million in 1977-78. Only expenditure on pensions (excluding unemployment benefits) kept pace with inflation during the period as a whole. Expenditures on health, education, housing, etc. for aborigines in each case declined in real terms, by as much as 92 per cent in the

case of community amenities and in no area by less than 29 per cent.

There is no real evidence to suggest that the reductions in the provision of components of the social wage such as health care to workers on lower incomes were matched by reductions in the proportion of income paid in various forms of taxation. It is more likely that federal taxation, overall, became less progressive. According to the federal ALP's calculation in August 1978, the net effect of the cuts in rates of income tax in February of that year and of the increases introduced in the 1978 budget was to increase the taxation paid by workers earning between \$114 and \$238 per week, that is by 55 per cent of all tax payers, and to decrease taxation paid on incomes above \$238 per week — by as much as \$15 per week in incomes of between \$500 and \$1000. (6) Furthermore, regressive indirect taxes have been raised in successive budgets; and revenue obtained by means of the present excise duty on crude oil has been increased substantially by the rises in the international price of crude oil.

The *Australian Financial Review* reported on July 16 (1979) that receipts from the duty on crude oil are expected to amount to over \$2,000 million during 1979-80, or \$800 million more than was anticipated before the most recent of OPEC's price changes. The *Financial Review* predicted that the increased revenue might undermine any attempt in the federal cabinet to reduce total payments of old-age pensions and family allowances and to further increase duties on beer, spirits and tobacco, and that it might lead to the removal of the present income tax surcharge. It made no suggestion, however, that expenditure reductions announced in May by the federal treasurer in his "mini-budget" would not be implemented. Those reductions include a further substantial reduction in expenditure on the provision of health care and a reduction in real terms on expenditure on areas of education other than non-government schools and technical and further education. In broad terms, it is simply likely that the increased revenue from a regressive indirect tax will replace the present surcharge on more or less progressive income taxation. (7)

There are three general reasons for the reductions in the federal government's

contributions to the social wage. First, the cuts deflate expectations that developed within the working class during the period of the Whitlam government (during 1973 and 1974, at any rate) that state power is accessible to workers' movements. The most savage cuts during Fraser's first year as Prime Minister were in just those components of the social wage which were effectively added by the Whitlam government, urban rejuvenation (or development) and the Australian Assistance Plan. As if cuts in the social wage were not enough to remind workers of their place, the federal government has become increasingly blatant in using state power against workers, particularly by way of procedures applying to the receipt of unemployment benefits (and the Department of Social Security was the only department able to finance a large staff after the 1978-79 budget).

Second, rates of profit on private investment had to be increased. To this end, the Fraser government sought to reduce the size of the unproductive part of the public sector and to decrease the rate of surplus value by reducing the social wage, including — through its pressure on the Conciliation and Arbitration Commission — the real value of take-home pay. Never mind that the strategy is contradictory: it also depresses rates of profit by restricting the purchasing power of workers and their families. The Fraser strategy has brought about, of itself, an increase in unemployment; and it has further reduced purchasing power to the extent that a reduction in the real value of cash transfers has been a constituent of the reduction in the social wage.

The third reason has been the fiscal crisis of the federal government. Federal expenditures have tended to rise faster than federal taxation has risen. Given the international recession and the anxiety of transnational industrial corporations to relocate their activities in countries in which wages are low, the production of surplus value within Australia was gradually contracting until the recent international boom in the prices of beef and wheat. During the past two years in particular, the federal government exacerbated the insufficiency of the tax base by severely cutting back its own capital expenditure and that of the states. By the same token, it contributed to the scale of

unemployment and to the need for expenditure on unemployment benefits (likely to be well over \$1 billion during 1978-79). (8) Overseas borrowing was increased dramatically between 1976-77 and 1977-78 (to \$1,612 million) and was expected to be in the order of \$1,200 million during 1978-79. (9) But overseas borrowing cannot of itself cope with sustained budget deficits, in the first place because the debt has to be serviced by transfers of foreign exchange, which has to be made available from the balance of trade or a net inflow of private capital. (10) In the second place, overseas borrowing unequivocally increases the money supply. But remember that Fraser has been insisting to capitalists, in the manner of Milton Friedman, that responsible economic management by the state requires that the rate of growth of the money supply should be strictly controlled. The problem is that reliance on overseas borrowing may lead to a higher than "responsible" growth of the money supply. Borrowing from whatever source in any case creates yet another claim on current taxation revenue. As already noted, there have been moves to augment revenue; but the more serious moves have been to cut expenditure, and particularly expenditure on components of the social wage.

It is already obvious that the whole ship is being tightened up. One aspect of this tightening up — among many others including greater control of the content of education, tough legislation in the field of industrial relations, and so on — has been the substantial reduction in the social wage. And don't blame the tightening up on a particularly inhuman Prime Minister, either: it's the tighter control that the ruling class as a whole requires.

— Gavan Butler,
July 19, 1979.

REFERENCES

1. *Report of the Taxation Review Committee* (Canberra: A.G.P.S., 1975).
2. For March 1979, the Australian Bureau of Statistics reports 425,000 persons unemployed and seeking work, plus 524,600 persons who are employed but who, while they would take jobs in certain circumstances, are not actively seeking work. Of this latter group, 63,300 have been discouraged from continuing to seek work by their failure in the past to find it. Australian Bureau of

Statistics, *The Labour Force: Australia* (6310.0), and *Persons Not in the Labour Force* (6219).

3. No readily available work on the general distribution of elements of the social wage has been done in Australia. The little work that has been done in the U.K. indicates that middle income earners benefit disproportionately. See, e.g., J. Le Grand, "Who Benefits from Public Expenditure?", *New Society*, September 21, 1978.

4. Parliament of Australia, *1978-79 Budget Paper, No. 1* (Canberra: A.G.P.S., 1978), p. 58.

5. These figures and others on expenditure come from Evan Jones, "Fraser and the Social Wage", *Journal of Australian Political Economy*, No. 5 (July 1979).

6. Quoted in *Australia Ripped Off*, an A.M.W.S.U. publication, 1979.

7. Increasing proportions of the revenue from the excise duty on crude oil are in effect to be handed over to the oil companies anyway over the next three or four years.

8. The government estimated that for 1978-79 unemployment and sickness benefits would cost \$952.0 million, an increase of merely \$9.6 million in nominal terms over the cost of such benefits in 1977-78. Parliament of Australia, 1978-79 Budget Paper No. 1, *op. cit.*, p. 75.

9. *Ibid.*

10. The servicing of present federal overseas debt is estimated to cost on average \$250 million per year during the next decade. See G. J. Crough, "Digging Deeper into National Debt: Australian Government Overseas Borrowings", *Journal of Australian Political Economy*, No. 5 (July 1979).

FEDERAL EXPENDITURE ON SOCIAL SERVICES (\$ millions)

	(1) 1975-76	(2) Actual	(3) 1976-77 1975-76 x 114.4	(4) Diff.	(5) Actual	(6) 1977-78 1975-76 x 125.0	(7) Diff.	(8) Actual	(9) 1978-79 1975-76 x 134.7	(10) Diff.
Education										
Health	1846	2160	2112	+ 48	2355	2307	+ 48	2498	2487	+ 11
Social Security*	2953	2543	3378	-835	2698	3691	- 993	2913	3978	- 1065
Housing	5145	5767	5886	-119	6663	6431	+ 232	7238	6930	+ 308
Urban & Regional Development	562	549	643	- 94	507	703	- 196	363	757	- 394
Culture & Recreation	408	251	467	-216	153	510	- 357	108	550	- 442
	253	257	289	- 32	261	326	- 65	284	341	- 57
Total	11167	11527	12775	-1248	12637	13968	- 1331	13404	15043	- 1639

Notes:

The original totals have been amended thus: unemployment relief has been subtracted; employment training schemes have been added.

Columns (1), (2) and (5) give actual expenditure in current dollars; column (8) is the budget estimate, also in current dollars.

Columns (3), (4) and (8) show what actual expenditures in current dollars would have been had the real value of 1975-76 allocations been maintained. The index figures 114.4, 125.0 and 134.7 indicate the degrees to which 1975-76 prices had been inflated by the end of each of the three succeeding years.

Source: Evan Jones, *op. cit.*