

# The Poverty of Reform

**The unemployed and other social welfare dependents have a right to both job creating economic policies and social welfare reform. In analysing the 1984 Budget, Peter Davidson argues that on both fronts they have been disappointed.**

**Peter  
Davidson**

This year's budget is a big disappointment for pensioners and the unemployed. Even before it was brought down, Hawke assured the Australian Finance Conference that "in this (budget) process the interests of particular sections of the community have to be weighed against the overall interest of the nation".

He went on to reassure the assembled custodians of "the overall interest" that he'd got his priorities in the right order: "I can tell you now that the simultaneous achievement of a lower budget deficit and the provision of a meaningful personal income tax cut, while providing adequately for social welfare services for the genuinely needy, is enormously difficult." (*AFR*, 26 July, 1984.)

The mass of the "genuinely needy" have been waiting since the election for the government to meet its social security obligations.

The ALP committed itself to:

- raise pensions to 25 percent of average earnings (i.e. \$102 per week next year) within three years
- raise unemployment benefits to the same level as pensions.

These policies are also an important plank in the Accord. Eighteen months later, there has been no real increase in pensions (now about \$92 per week for a single person) and unemployment benefits are still \$10 per week less than the pension (\$82 per week). The under 18 years rate of benefit is \$45 per week, less than half the pension rate (see Table 1).

The first step in any credible program of welfare reform is the raising of unemployment benefits to the pension level. In 1975, all of these rates were the same. This discrimination against the

unemployed is a vestige of the Fraser government. They also miss out on the \$15 per week rent allowance paid to pensioners.

Not that the proposed pension reforms will see them in the lap of luxury. Pensioner organisations and the ACTU both endorse a policy of raising pensions to 30 percent of average earnings. A pension and benefit rate of \$102 per week is a mild reform indeed.

The budget increase is instead of the increase pensioners would have automatically got in November if not for the "medicare effect" on the CPI. This means that, since the Hawke government came to power, there has been no significant, real increase in pensions.

Welfare spending is caught in a vice. On the one hand, the government insisted on keeping the deficit below \$7,000 million to please big business and finance interests. This figure is quite arbitrary, and is based on the assumption that this year's deficit should be lower than last. On the other hand, the ACTU sought tax cuts of around \$8 per week, at a cost of \$1,300 million. The government failed to restructure the tax system to generate more revenue from the wealthy. Welfare was not the only area of social expenditure to suffer. Cuts of over \$1,000 million dollars were made in proposed increases in housing, education, cultural programs and capital works.

By the end of 1985, if the government meets its commitment of a pension/benefit rate of 25 percent of average earnings, the rate should be around \$102 per week for a single person. It would cost approximately \$1,300 million extra in the 1985/86 budget to raise payments in real terms

	Prebudget rate (pw)	Increase (84 budget)	New rate (pw)	Policy target(85)	Increase needed (tot)	Increase needed (85 budget)*
Pensions (single rate)	\$90	\$2.50	\$92	\$102	\$10	\$5
Benefits (single adult rate)	\$80	\$2.50	\$82	\$102	\$20	\$14
Benefits (single U/18 yrs rate)	\$45	0	\$45	\$102	\$57	\$57
Rent allowance (. . . . . pensioners only . . . . .)	\$10	\$5	\$15	\$15 (pensioners and unemployed)	\$15 (to unemployment beneficiaries)	\$15
<b>Total cost</b>		<b>\$430m.</b>				<b>\$1300m.</b>

Rates rounded off to nearest dollar, 'married rate' increases also accounted for in estimate of total budget increases and a 5% annual increase in both the CPI and average earnings is assumed.

\* This excludes the 6 monthly indexation rises which should occur in May and November 1985. It refers to real increases only.

TABLE 1: SOCIAL SECURITY BUDGET: THE INCREASE MUST TREBLE IN NEXT BUDGET!

to that level, and to pay rent allowance to the unemployed. This is three times the total (non-indexation) budget increase in social security payments for 1984/85 (Table 1).

Welfare spending is linked very closely to the government's strategies for taxation and economic growth. Both must be challenged in order to get a fair deal for pensioners, the unemployed and social welfare services.

### Tax Reform

In May, ACOSS and the ACTU argued publicly over tax cuts and welfare increases. ACOSS insisted that only those on around average income or less should receive a tax cut, and that the savings should be used for social security increases. The ACTU called for both significant tax cuts and welfare increases, but failed to put a figure on the latter. Both organisations missed an important opportunity to combine to hammer the government on its budget deficit target, and push for real tax reform after the election.

The political trade-off between tax and welfare is not new — it is the foundation stone of the Australian welfare state. The problem is that social welfare is paid for by ordinary workers, not the wealthy. It only redistributes wealth within the working class.

During World War II, the Curtin Labor government funded the new system of unemployment and sickness benefits and widows' pensions with a tax slug on low and middle income earners. In fact, it was the first time low income earners had been taxed. (See Table 2.) Curtin got away with it by setting up a "national welfare fund", to guarantee that the extra taxes

would go to welfare payments and nothing else. Menzies then abolished the fund but retained the higher taxes.

Since then, the tax slug on low and middle income earners has worsened. From 1962 to 1984, pay-as-you-earn taxation revenue grew from 32 percent to 52 percent of the total tax "take". Indirect tax remained steady at around 30 percent, while corporate taxes dropped. There are no effective taxes on capital gains or wealth in Australia (as in most capitalist economies). This has encouraged tax evasion by the wealthy (by disguising income), which was estimated by the Taxpayers Association to cost around \$1,000 million dollars in lost revenue in 1978. The wealthiest 10 percent of Australians get over 90 percent of Australia's income from dividends, interest and rent. Yet many of them, and many large corporations, pay no tax at all.

Social welfare spending has trebled since Fraser came to power because of mass unemployment rather than that government's generosity. It now represents 30 percent of total Commonwealth outlays, more than the health and education budgets combined. (See Table 3.) This may look good on paper, but for each unemployed person, all it means is a hand-to-mouth existence.

Social welfare is not only about pensions and benefits. Welfare services like public housing and child care also have a big impact on working class lifestyles. A central plank in the Whitlam government welfare program was a big expansion of funding to

community organisations to improve welfare services for the aged, for women, for blacks and for local communities starved of resources.

Before the 1970s, the welfare scene was dominated by government bureaucracy and conservative charities. These organisations gave social welfare a bad name, a stigma. They invented the patronising notions of "genuine need" and "deserving poor". Labor challenged this orthodoxy of "charity" with a drive for community participation and control of government funded services. Social welfare was regarded as a right for all, not a handout to the poor.

But there was a catch. These new community-based services were never adequately funded and were used by governments to buy their way (at a cut price) out of their own social welfare commitments. Community development became "community responsibility". Community based care often boiled down to an old-fashioned reliance on women as unpaid carers. And Fraser (now Hawke) brought the old concepts of "genuine need" back to life.

The problem with welfare spending is not confined to its adequacy. The last decade's increases in welfare spending have been paid for out of the pockets of the workers. The stage was set for the all too familiar game of divide and rule.

It is about time the rules of the game were changed, with genuine taxation reform and redistribution.

Those who attack welfare spending usually neglect the thorny issue of

"taxation expenditures", those rebates and tax credits which are, in fact, a form of welfare benefit (including executive perks and perks estimated to cost \$7,000 million in 1981 — University of NSW Social Welfare Research Centre). One of the largest is the spouse rebate which costs around \$750 million each year. This rebate goes to single income families and thus discriminates against married women who work. Only one third of its recipients are low income earners. Single parents and welfare dependents don't benefit at all.

### The Deficit and Economic Growth

Why is the government so concerned to reduce next year's deficit? *The Financial Review* gives us the answer. This year's deficit must be seen to be lower than last year's because it is "psychologically important to business". (*AFR*, 20 July, 1984.)

The key to the Hawke Keating economic strategy is to encourage new business investment in Australian industry, to restructure it and make it more "efficient" in world terms. Hawke has been heard to complain that, despite burgeoning company profits, capital has been inconsiderate enough to refuse to invest. Big business insists that the "climate must be ripe", which usually means more belt tightening to reduce real wages and government's social spending. Those who claim it is the unions who are running the economy should think again.

Australian capital has always had an ambivalent attitude towards welfare spending. After the war, it was one of the main props of economic policy which sustained the 30-year "boom". Along with war expenditure, welfare spending was an instrument of Keynesian "demand management". There was a widespread fear of another depression in the '40s and the welfare state was an insurance for both labour and capital. It guaranteed a "base line" of person consumption, even in conditions of mass unemployment. Inflation was a spin-off of the growing government deficit, but this was controllable with steady economic growth.

Now that the post war boom is spent, business and financial interests are reassessing the welfare state. It has become an "ogre", devouring the

nation's wealth without contributing directly to production. Business psychology aside, a private investment-led recovery imposes tight restraints upon government spending. Hawke also said, in the speech quoted above, that "the economic strategy must reflect a fine balance between the fiscal stimulus necessary to support expansion and the restraint on that expansion which is necessary to keep inflation and interest rates on a downward path". (*AFR*, 26 July, 1984.) If social security were to be abolished tomorrow, the country would be plunged into deep recession. On the other hand, large social security increases in the absence of tax increases or strong economic growth have a profound economic impact which must be addressed.

The scope for welfare reform is limited, as long as economic policy is based upon a private investment-led recovery.

The answer, again, is to change the rules of the game, with a program of public sector investment and expansion in "productive" as well as "service" industries. This was, after all, how the capitalist world hauled itself out of the last great depression. Already, it is the public sector which is contributing the most towards economic and employment growth. Business still refuses to reinvest in Australia's industrial base, except to reduce employment by "rationalisation".

### The Labour Movement's Role

The ALP-ACTU Accord will come under close scrutiny after the budget, and the Accord and the ACTU tax cut campaign will be blamed for the lack of adequate "social wage" improvements. The problem is not the content of the Accord itself, but the narrow form it has recently taken — a trade-off of wage restraint for tax cuts. The Accord also provides for social welfare, health, and education spending but, apart from Medicare, these reforms haven't seen the light of day.

Unions are faced with the immediate problem of the impact of the "Medicare effect" on the CPI and hence on wage increases. Union members won't tolerate this without a trade-off and a simple tax cut was the easiest solution. Unions are used to bargaining over wages and conditions;

### National welfare fund contributions - 1944

£21.5 million	from low income earners (under £400 p.a.)
£13 million	from middle income earners (£400 - £1,000 p.a.)
£5.5 million	from upper income earners (over £1,000 p.a.)

(Balls, R. & Kenyon, B. *Australian Welfare History*, 1982)

TABLE 2.

The 1983/84 Australian Social Welfare Budget		(1,000's of millions)
<b>TOTAL (approx.)</b>		<b>\$16</b>
<b>Benefits</b>		
Age pensions		\$5.0
Unemployment benefits		\$3.4
Pensions for supporting parents and widows		\$1.0
Invalid pensions		\$1.3
Family allowances		\$1.2
Administration		\$0.7
<b>Services</b>		
Child care services		\$0.08
Aged pensions accommodation		\$0.120
Disabled pensions services		\$0.170
Public housing (to states)		\$0.500
Aboriginal and Islanders Services		\$0.240

This represents only direct federal government spending. The majority of federal funds for welfare services are paid via general purpose grants to the states.

TABLE 3.

they aren't geared up to campaign over social expenditure. Even the term "social wage" equates social welfare with wage bargaining.

The separation between work and home, between workplace politics and "community" struggles over social services, is enshrined in the trade union movement. This is slowly changing, especially with the growing influence of women unionists (whose interests usually span workplace and domestic politics) and of public sector unions. The AMFSU "social wage" campaign has played a major role.

However, divisions between employed and unemployed workers, between men and women, and struggles between workers as taxpayers and workers as welfare dependents, continue to block progress, and the immediate priorities of the union movement and the Accord remain far too narrow. From the standpoint of economic justice, the Accord will be judged in the following terms:

- The reconstruction of Australia's industrial base, to generate employment and social wealth. The interventionist policies of the Accord



are threatened by the government's free market approach to industry policy, financial regulation, and public sector growth. There is no free market solution to the decimation of the country's base and a permanent unemployment level of over 10 percent.

•Redistribution of wealth, which depends on wages, tax and social policies. The Accord has potential in the "social wage" area, and on the face of it involves the unions in determining fiscal policy. However, social expenditure has been restrained and an across-the-board tax cut is not an effective means of redistribution.

The ACTU is beginning to move on the issue of Australia's taxation base — the need for taxes on wealth. It has also foreshadowed a campaign for a national superannuation scheme for retired people. However, pensioners, the unemployed and women cannot afford to wait much longer for real progress on benefits, pensions, child care, public housing and other social welfare reforms. The danger is that a community backlash against the Accord and the union movement's priorities may come well before the ACTU turns its attention to these issues.

According to Social Security Minister Don Grimes: "A number of specific objectives and measures were listed (in the Accord). These recognise that social security is no longer — if it ever was — a residual system, designed to pick up those who, for some reason, could not provide for themselves, but a major and far-reaching source of social support, and indeed, social cohesion." (National Economic Summit, 1983.) Without union

support, welfare and community organisations face an uphill battle just to keep the government to its own commitments.

### **The ALP: Retreat from Reform**

**T**his balance sheet of retreat from reform doesn't augur well for the ALP. Although Labor is now riding high in the polls, social democracy is in full retreat. The popular appeal of Australian social democracy lies in its policies of economic growth (and jobs), and moderate redistribution of wealth and social reform on this basis. The Whitlam government was a classic example; the Hawke government is pale and lifeless in comparison. The ALP has still not come to terms with the defeat of 1975. A reform program confronted with deepening recession can't survive unless the logic of the market and the economic power behind it are challenged.

Social welfare reform is a mass issue, with 25 percent of Australians dependent on social security, and the growing social impact of mass unemployment. It is one of the major issues which will determine the Labor government's popular support and its fate, in the next election if not this one.

### **Unemployment: The Critical Issue**

**W**hen the Scullin Labor government was defeated in the midst of the depression in 1931, its failure to act on mass unemployment was the key election issue.

Despite massive economic growth of around 10 percent this year and nearly 225,000 new jobs, unemployment has been reduced by only 1.5 percent (10.4% to 8.9%), and the government has accepted that mass unemployment will be with us for many years.

Long-term unemployment will be an intractable problem, even with strong employment growth. The average duration of unemployment is now 40 weeks, not counting the "hidden" unemployed. The problem is especially severe for older workers, many of them retrenched in the recession of 1982. The average spell on unemployment benefits for people aged 35 to 54 years is now 60 weeks. It is much worse for those over 55 who don't stand a chance without specialised skills. Neither do those young people who have never had a permanent job.

Policies aimed at the "reconstruction" of Australian industry will need to be combined with short-term job creation and retraining schemes, and new approaches to retirement, part-time work, and education, if long-term unemployment is to be beaten. It is unrealistic to expect economic growth alone to "mop it up". The view that economic growth is by itself an alternative to welfare programs, is an illusion within the union movement which is hard to shake. It springs from the old "residual" approach to social welfare, as a "safety net" for the disadvantaged which can be pulled back on board once full employment returns.

On the other hand, the ALP's abandonment of a policy of full employment is of great concern. The recent ALP Conference removed reference in the platform to "the right of all to employment" and replaced it with a reference to the "difficulties" of a return to full employment.

The unemployed and other social welfare dependents have a right to demand both job creating economic policies and social welfare reform (reconstruction and redistribution). They are not mutually exclusive. On both fronts, they have been disappointed. Can the left take up the challenge?

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