

I'm ALRIGHT, MATE



Illustration: Michael Fitzjames.

Its left critics say the Hawke government has sold out working people to its business 'mates'. The government responds that its been pursuing equity through growth. So what's the story? Frank Stilwell weighs up the evidence.

It is now commonplace to note that the leaders of the federal Labor government seems more concerned with their big business "mates" than with the party's traditional constituency among low and middle income earners. This is a source of disillusionment for some of the party faithful, a trigger for gleeful "I told you so's" among others on the far left and a general symbol of the subordination of equity considerations in recent public policy.

Of course, Hawke and Keating tell the story differently, stressing that a healthy economy is the prerequisite for social reform and that employment-generation is the most effective welfare policy. It is, however, the private economy which must be made healthy and it is the private sector which must be encouraged to generate jobs. Hence Mr Keating's recurrent boast — typically uttered without any hint of irony or embarrassment — that the Labor government has curtailed growth in the public sector. It is a story with the familiar ring of "trickle-down" economics. It is timely to ask how much has actually trickled down.

The focus of this article is the tension between the government's economic policies and the objectives of social reform. For the sake of developing a sympathetic critique, I've acknowledged the government's partial commitment to the latter objectives. The "social justice" strategy heralded by the publication in early 1988 of the glossy brochure, *Towards A Fairer Australia: Social Justice Under Labor*, is the most obvious expression of this commitment. The more recent booklet *Towards a Fairer Australia: Social Justice Budget Statement 1988-89* is the latest written expression of this dimension of policy. It lists, among other things, additional expenditure on the family allowance supplement, housing assistance, child care, Aboriginal advancement and new schemes to help the unemployed (JET, NEW START). These are important developments.

However, the problem is that those reformist objectives have been recurrently subordinated to the (misleadingly labelled) policies of "economic rationalism". Moreover — a related matter — the government's policies have been developed in a national and international context which makes the achievement of a more equitable society in Australia increasingly difficult. So the sympathetic character of my critique is tempered by the implicit judgment that it could have been otherwise — that there is no "inexorable logic" in the reliance on an economic strategy which makes the welfare of ordinary Australians increasingly vulnerable to the vicissitudes of international capitalism. As such, the Labor government carries a major responsibility for the record of social inequality.

The dimensions of inequality

The facts of distributional inequality are not in major dispute. In terms of the *functional* distribution of income — the relative shares of capital and labour in the national income — there has been a significant shift in the five years since Labor took office. The share of labour (received principally as wages and salaries) has fallen by six percent, while the share of capital (received as interest, dividends, rents, etc.) has risen by six percent. In terms of *personal* distribution of income the evidence suggests a further degree of polarisation — with growth in the number of high income earners and low income earners, at the expense of a decline in the intermediate ranges.

The number of millionaires has been estimated at over 32,000 although to be a mere millionaire is somewhat passe in circumstances where Sydney harbourside mansions now regularly retail in the \$5-\$20 million range. To get into the *Business Review Weekly's* "Top 200" now takes assets of \$35 million, up \$5 million on 1987's listings. Meanwhile, over 20 percent of households are dependent on social security as their principal means of

support; below that there is a clearly discernible sub-welfare class characterised by major problems of homelessness — most refugees and hostels are overcrowded to bursting point and an estimated 3,000 people are homeless each night in inner-Sydney alone.

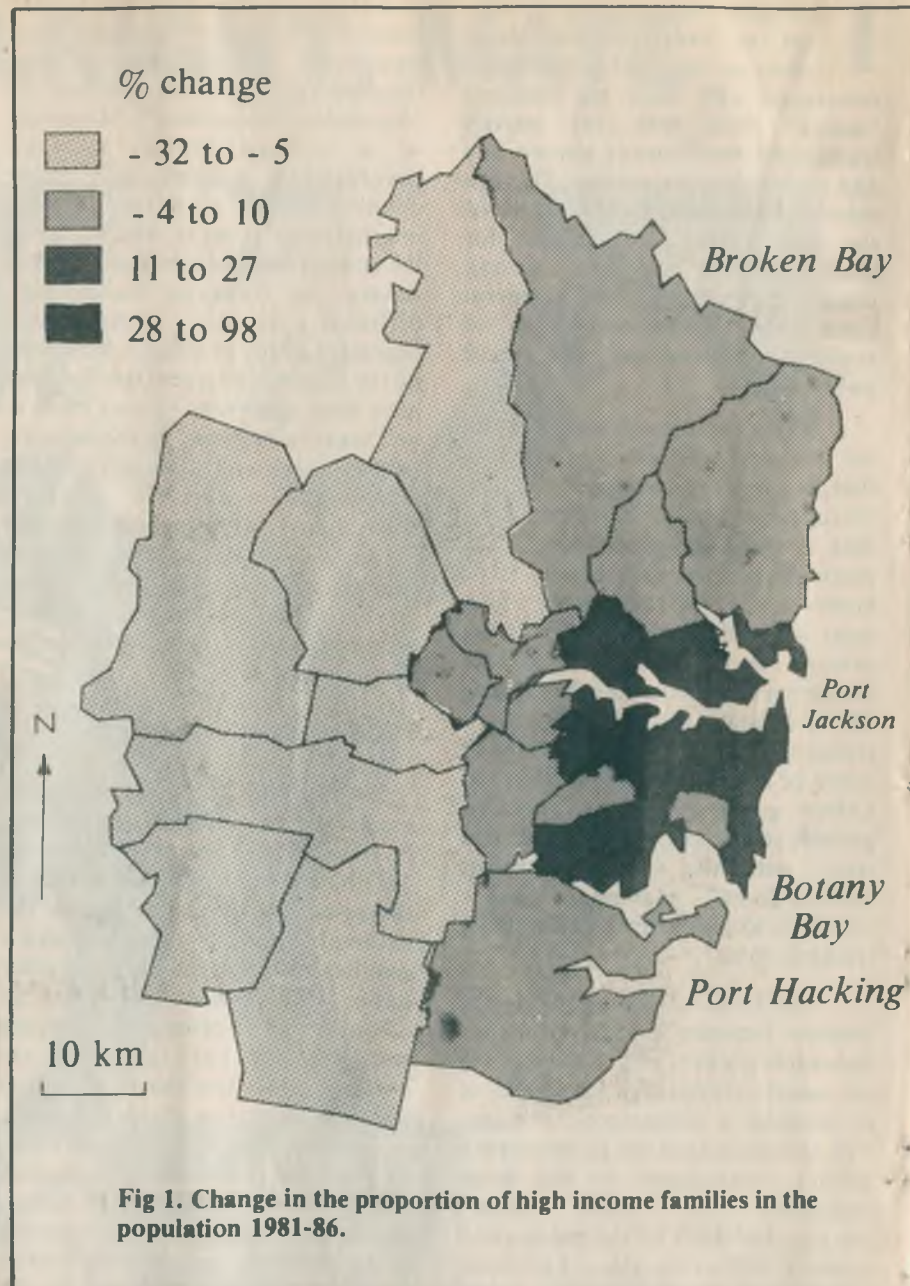
One interesting indication of the effects of the unequalising forces operating in Australian society is the *spatial* pattern of upper and lower income groups within the major cities. Of course, a degree of territorial segregation is a long-established feature of Australian cities, as in most cities around the world. What is more significant is that this tendency appears to be becoming more pronounced in the 1980s. My own research shows this to be the case in Sydney. Taking information from the 1981 and 1986 Censuses of population, we can identify the proportion of high and low income groups in each government area. (For this purpose, high incomes are defined as those in the upper quartile — i.e. the top 25 percent of income earners. The low incomes are those in the lower quartile — i.e. the bottom 25 percent, roughly equivalent to the overall incidence of poverty in the society).

The results of this research are shown in the two maps. For the high income families, the most rapid growth areas were the gentrifying inner-city areas, particularly those around Sydney harbour, with increases also evident throughout the north shore suburbs, the inner west and the southern shire of Sutherland. All the western suburbs, which entered the 1980s with relatively low proportions of upper income groups, faced a decline in that proportion between the two censuses. The situation is still more striking when we look at the information on low income groups. The proportion of low income families in the population fell throughout most of the north shore areas and in the gentrifying inner-city areas. On the other hand, it increased dramatically across the whole of the western suburbs. The contrast between the fortunes of the advantaged and disadvantaged areas is obvious.

These patterns need to be interpreted with some caution. They relate to local government areas which often include diverse component parts. They relate only to the period 1981-1986 because of the limited availability of census data. They relate only to Sydney, and further research is needed on other urban areas before generalisations can be made. Also, of course, they do not isolate the effects of federal government policies from other forces generating economic equalities. Nevertheless, they do provide significant *prima facie* evidence of a tendency towards economic polarisation that has a spatial as well as a social dimension. This is significant in that spatial inequalities, once established, tend to have a reinforcing effect, compounding the tendencies towards a widening gap between the "winners" and "losers" in the income redistribution stakes.¹

Other inter-related dimensions of economic inequality also need to be acknowledged. The gender dimension is a case in point. Despite significant emphasis on equal opportunity and affirmative action programs and, despite a significant growth in female participation in the waged workforce, the relative economic position of women remains markedly inferior on average to males. Indeed, one author² contends that the relative position has actually worsened under the Hawke government, although my evaluation of the evidence is that the situation can be better characterised as one of painfully slow redress. The relationship between average wages of female and male full-time workers crept up from 80.6 percent to 82.8 percent between November 1983 and February 1988. On the other hand the "feminisation of poverty" has been increasingly evident among welfare recipients: the dramatic over-representation of single mothers in the official poverty classification is its most obvious expression.

The ethnic dimension of inequality is also important. Jock Collins' recent book³ provides background evidence on some of the long-standing inequalities associated



with immigrant groups, but systematic evidence on how their fortunes have changed under the Hawke government is harder to find. The incidence of unemployment has been particularly high among the more recently arrived immigrant groups, but the "filtering-up" process is apparently continuing among the more established groups. Likewise, while the disadvantaged position of the Aboriginal people is evident — one survey has revealed an unemployment rate over ten times the national average⁴ — it is

difficult to assess how their relative position has changed in the last five years.

Generating inequality

Socio-economic inequalities are the products of various causal factors. Four constellations of these factors stand out as being particularly significant in the context of the 1980s and the policies of the Hawke government: (1) the labour market, real wages and unemployment; (2) housing costs; (3) the social

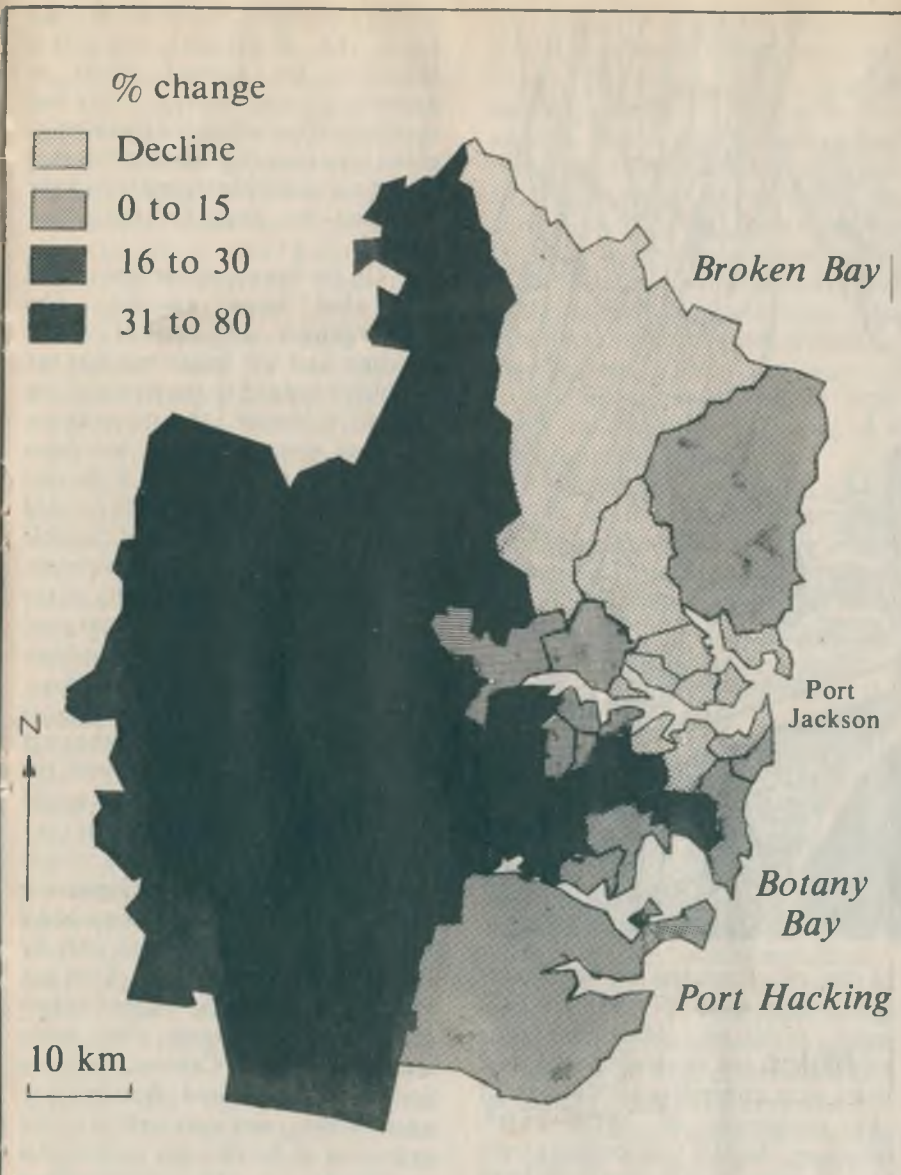


Fig 2. Change in the proportion of low income families in the population 1981-86.

7-8 percent fall in the value of real wages. This has been heralded by the government as a major achievement in terms of reducing the wage costs of Australian business — and indeed it is — but it has simultaneously been a major factor intensifying the economic inequality between wage and salary earners and the recipients of income from capital.

The situation in the housing market has been equally important. Marxists in particular have traditionally regarded this as secondary to production relationships in the determination of differential class positions. However, in the 1980s, housing has obviously been a major factor fuelling

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inequalities, as house prices have escalated and persistently high interest rates have made home ownership increasingly inaccessible to low and middle income groups. Partly as a consequence, the demand/supply imbalance in the rental housing sector has changed, leading to massive rental hikes. The public sector has been unable to cope with the overflow, and 86,000 people are on the waiting list in NSW alone. The resulting pressures on temporary and emergency (“permanent emergency”) sources of shelter have already been noted.

In effect, the situation in the housing market has interacted with the situation in the labour market to create a “scissors effect” on low to middle income groups. Falling real incomes and rising housing costs are an obvious recipe for growing economic inequalities. To what extent the policies of the federal government are to blame obviously remains a matter of contention. Certainly, the first-home owners

wage, and (4) taxation policies. A thorough analysis would need to treat each in depth and evaluate their interconnections: the following comments merely pick out some of the most obvious aspects..

The situation in the labour market is obviously important, particularly the persistence of substantial involuntary unemployment and the falling level of real wages. The Hawke government’s original emphasis on tackling the unemployment problem was a significant change from its

predecessor’s monetarist-inspired focus on “fighting inflation first” (although it is significant to note that Keating’s 1988 budget speech again referred to inflation as our number one economic problem).

However, the actual record has been disappointing — a cut of only three percent in the official unemployment rate despite the generation of a million jobs. This bodes ill for any return to full employment in the foreseeable future. And those actually in employment have seen, on average, a



scheme and the Commonwealth-State Housing Agreement have proved inadequate for the task, as noted in a recent study⁵. Most fundamentally, there is a continuing reluctance to acknowledge that the public housing sector needs to expand massively in order to augment the total housing stock. At present it is limited to providing a residual "welfare" role. To overcome this problem would require the co-operation of the state governments, which is unlikely in a number of cases, and particularly unlikely in NSW given Premier Greiner's emerging penchant for the Thatcherist policy of selling off the public housing stock.

The issues of social wage expenditures and tax revenues are most directly the responsibility of the federal government. Here the experience is mixed. The treatment of the social wage in the first two budgets of the Hawke government was relatively impressive. The bulk

of the cuts imposed by the Fraser government in the period 1976-1982 were restored, Medicare was established (or re-established), and there were impressive allocations for the provision of child care⁶. However, the last four budgets have been austere. In each case there have been significant exceptions — as in the case of expenditure on Aboriginal affairs and the family income supplement in the 1988-89 budget. Moreover, social wage expenditures as a proportion of total government expenditure have risen from 43 percent to 49 percent over the last six years. Over half the increase has been in expenditure on health policy.

However, the general reformist commitment to an expanded social wage has mostly been subordinated to the macro-economic priorities of pre-Keynesian economics. Reining in the deficit and then generating a budget surplus of sufficient magnitude to eliminate the public

sector borrowing requirement have been the dominant concerns. Whatever the general merits or demerits of this strategy, it has had the effect of curtailing the social wage at the very time that developments in the labour and housing markets have increased the need for the social wage.

On the taxation side, the record has also been uneven. The introduction of capital gains taxation and the fringe benefits tax has clearly added to the equity of the system. However, the quantitative effect of these measures has been swamped by the reduction of the rate of company taxation from 48 percent to 39 percent, the ending of "double taxation" of income from dividends, and the reduced progressivity of the income tax scale. The top marginal rate of income tax has been cut from 60 percent to 49 percent. Moreover, it is no secret that Mr. Keating wants it to be cut to 39 percent in the next budget to bring it into line with the company tax rate. This would certainly help to reduce the tax avoidance which results from wealthy individuals disguising personal income as company income, but it would do so only by lowering the overall share of the tax burden borne by the upper-income groups. It is known that some members of the Cabinet, such as Senators Walsh and Button, are apparently anxious about the provision of further tax cuts of this magnitude to the upper-income groups — even economic "rationalism", it appears, has its limits.

The price of "Economic Rationalism"

Of course, Labor and social democratic parties always face a basic contradiction in seeking to reconcile the management of a capitalist economy with the objectives of reform, including the reduction of economic and social inequalities. The hallmark of this government has been its overwhelming obsession with the former, despite the earnest endeavours of Brian Howe as

Minister for Social Security and the recurrent warnings from sources close to the traditional electoral base of the party. Moreover, the government has pursued economic policies which have increased the obstacles which a future reforming government would face. It is in this context that the policies of "economic rationalism" have their most significant effect.

These policies have their theoretical basis in neo-classical economics theory and their spiritual home in the think-tanks of the "new right". Their basis is a faith in the effectiveness of the market in generating efficiency. Hence the emphasis on financial deregulation, the removal of controls on international capital movements, cuts in tariffs on imported goods (despite our continuing balance of payments difficulties) and the dedication to generating an ever-larger budgetary surplus. These are the classic prescriptions of conservative economics — not of a traditional pragmatic conservatism but of a purist free-market ideology.

Only the labour market policies have substantially withstood the onslaught of this ideological package, despite the urgings of the "new right" and the continued tensions arising because of the coexistence of regulated labour markets and deregulated capital markets. Even so, the latest national wage case may be seen as a step towards achieving the "wage flexibility" advocated by the deregulationists. Of course, the continued existence of the remnants of the Accord — and the official compliance of the trade union movement to government policies — requires that some degree of regulation be maintained in this respect. Yet it remains a residual element. It is a political prop effectively supporting a radical experiment in economic restructuring, albeit surpassed in its audacity by Rogernomics across the Tasman Sea.

What is particularly significant is that the policies of "economic rationalism" integrate the Australian economy even more closely into the

international capitalist economy. Financial deregulation (including the floating of the value of the currency and the entry of foreign banks) together with the elimination of exchange controls and the reduction of tariffs, have all had this effect. In consequence, the Australian economy is increasingly susceptible to the volatile conditions prevailing in the international economy — a peripheral and vulnerable player in a rigged game. This is the long-run price of "economic rationalism" to be added to the short-run costs of a more equitable society.

I would not claim that all the policies of the federal government have consistently had this effect. Important steps have been taken to redress inequality by targeting social expenditures more directly at the needy (albeit at a considerable cost in terms of the departure from the principle of universal provision "as of right"). The increased Family Allowance Supplement, the Child Support Scheme and the JET Scheme should help partially to counter the "feminisation of poverty". The Social Security Review under the direction of Bettina Cass has made important contributions. And the continued — albeit fragile — existence of the Accord has probably worked against a widening of wage differentials that would have otherwise occurred.

Yet these are qualifications to be set against the general evidence of

persistent tendencies towards increased economic inequalities. Despite its economic problems Australia remains an affluent society, but one in which the fruits of affluence are increasingly unevenly distributed. To have presided over this period of economic polarisation, is an uncomfortable "achievement" for the ALP.

NOTES

1. A fuller analysis of these trends was presented to the ANZAAS Conference in May 1988 in a paper titled "The Impact of National Structural Economic Change on Spatial Equity in the Sydney Metropolitan Area". Copies of the paper are obtainable by writing to the author at the Department of Economics, University of Sydney, NSW 2006.
2. S. Rosewarne, Economic Management, The Accord and Gender Inequality, *The Journal of Australian Political Economy*, No. 23, August 1988.
3. J. Collins, *Migrant Hands in A Distant Land: Australia's Post-War Immigration*, Pluto Press, Sydney, 1988.
4. R.T. Ross, *The Labour Market Position of Aboriginal People in NSW, November 1987*, Working Papers in Economics, Department of Economics, University of Sydney, No. 99.
5. C. Paris, Housing Under Hawke, *The Journal of Australian Political Economy*, No. 21, February 1987.
6. For further details see F. Stilwell, *The Accord and Beyond*, Pluto Press, 1986, ch. 5.

FRANK STILWELL teaches political economy at Sydney University.

