The Erosion of Self-Reliance

Welfare Dependency and the Family

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Government pensions and benefits have become the main source of income for many low income families.

Over the past 25 years something previously unimaginable has occurred in Australia: large numbers of people of working age now rely on government pensions and allowances for most of their income.

According to figures assembled by the Commonwealth Government's Department of Family and Community Services, the proportion of the population that receives pensions and benefits increased from 5% in 1973 to 18.4% in 1998.[1] Before the mid-1970s the small number of income support payments for persons of working age were mainly paid to invalids and widows. Unemployment was at a low level and the payment of benefits to sole parents (other than widows) was the responsibility of the states. The growth in the number of pensioners and beneficiaries of working age since the mid-1970s came about because of the rise in unemployment, the introduction of new payments for sole parents, and increasing numbers of recipients of payments for the sick and disabled.

Growing numbers of working people also receive income-tested assistance from government. The number of children in working families, for example, that receive income-tested additional family payments increased from 75,000 in 1985 to 579,000 in 1998.[2] Families receiving additional family assistance will experience many of the difficulties that pensioners and beneficiaries experience when they attempt to increase their incomes through their own efforts. This is because assistance is reduced progressively as income increases above threshold amounts. As a result, the incentive to earn extra income is reduced over the range of income where assistance is withdrawn.

The increasing reliance on income support from government as the main source of income for people of working age runs directly contrary to what was preferred in Australia during the 19th and most of the 20th century.

The evolution of welfare

Australia's colonists were anxious to avoid introducing the English poor law. Under this law, local communities were responsible for supporting people who were unable to work and for whom no other means of support was available. This assistance was usually provided to people in their own homes ('outdoor relief'). During the early 19th century, a system of subsidising wages for low-paid labourers from local government rates also emerged in some parts of southern England. This practice, known as the Speenhamland system, has some clear similarities to the system of government assistance to low income working families that now exists in Australia.

Although supplementing wages in southern England provided some immediate relief, it was soon concluded that such assistance was not in the interests of working men and their families. According to the economist Alfred Marshall: 'Farmers sometimes had to turn away

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hard-working men who had saved a little money and make them live on that, in order to make room for drones forced on them by the parish. The industrious were so much worse provided for than those who went to the parish, that in time independent labourers ceased to exist.'[3] Thus, the subsidisation of wages made it possible for employers to lower wages, and reduced the ability of independent labourers to improve themselves through their own efforts.

The poor law reforms of the 1830s sought to end this situation by requiring able-bodied persons to enter workhouses before assistance could be granted. Although this system has been widely—and correctly—criticised for its harshness, historians such as Gertrude Himmelfarb have nonetheless argued that the new poor law was successful in reducing the extent of dependency.[4] According to Alfred Marshall, the new poor law was a 'beneficent but highly imperfect measure.' Moreover, the working classes had been able during the second half of the 19th century to improve their situation through their own courage and self-reliance. As a result, 'the pauper population is not one half as great, in proportion to the whole, as it was in the dark times, while the purchasing power of wages is, on average, taking all classes of labourers together, about three times what it was early in the century.'[5]

Private versus public welfare provision

The English system of public relief was never introduced in Australia. According to the historian Thomas Henry Kewley, during 'most of the nineteenth century such "outdoor" relief measures as were taken in Australia were mostly conditioned by the belief that direct social provision by the State, and especially cash benefits, undermined self-reliance and initiative on the part of the individual and encouraged "pauperism". This was considered to be "about as contagious as smallpox" and equally to be avoided'.[6]

Australian society in the 19th century met its welfare needs largely independently of government. The work of voluntary organisations, such as the Benevolent Society of New South Wales, and friendly societies was especially important. Although government spending on welfare gradually increased towards the end of the century, where cash grants were given, great care was taken by government and private providers to ensure that these payments did not undermine self-reliance. Rates of payment, for example, were set to provide a contribution towards the cost of upkeep of an adult or a child but not the full amount.

Many people felt, however, that these arrangements were not working well for the aged in particular, given the growth in the number of older people with no close family to support them towards the end of the century. New South Wales introduced aged pensions in 1900; the Commonwealth government introduced pensions for the aged and disabled in 1908. These innovations were surprisingly limited in scope. Despite further developments at the state government level, the 19th century system of charitable relief continued largely unchanged for persons of working age until the introduction of a comprehensive system of social security by the Commonwealth in the 1940s. Indeed, as noted, the number of persons of working age who received benefits remained low until the 1970s.

Regulating labour markets

The depression in the 1890s also led to public policies directed towards improving the situation of independent workers. Australian governments regulated labour and product markets to secure, as they believed, industrial peace and a fairer distribution of incomes. This intervention did not take the form of more extensive welfare state services. According to Frank Castles

> crudely speaking if there is full employment and wages are adequate, state intervention to alleviate poverty will be largely unnecessary, except in respect of a small minority out of the labour market and unable to derive support from past savings or through dependence on a labour market participant. Similarly, to the degree that primary wage differentials are compressed, egalitarian socialist objectives will require less state action to redistribute post-primary incomes through either social security or fiscal benefits. It was just such a strategy of full employment, minimum guaranteed wage relativities and some compression of skill differentials which the early Australian labour movement proposed, and which found their expression in the (from a European viewpoint) rather peculiar social policy instruments of immigration control and state arbitration, in which cost of living considerations were to outweigh profitability criteria.[7]

Moreover, high levels of home ownership both reduced the need for income support in retirement and increased the resistance of younger families to taxation. According to Castles, 'the costs of home ownership served to exert a considerable pressure on young families to prefer a maximisation of private control over wage expenditures, and are, therefore, likely to constitute a further, and self-perpetuating, source of resistance to increasing revenue demands for the purposes of welfare state expansion.'[8]

The erosion of self-reliance

This distinctively Australian approach to the welfare state began to change from the 1960s. Rates of benefits were increased in real terms, especially during the 1970s. Means tests for benefits were eased, thus allowing a greater proportion of those in the relevant group (such as the aged) to receive benefits. New benefits were introduced, for example for sole parents and low income families. The development of administrative law and an elaborate system of appeals changed pensions and benefits from privileges granted by the state (often in recognition of past contributions to society) to an entitlement or right of citizenship. It came to be expected that the government would provide benefits that were sufficiently large to lift the recipient and his or her family out of poverty, whereas before the 1960s it had been accepted that pensions and benefits would supplement the recipient's other resources and would not usually be the sole source of income. As a result, Australia now has an extensive system of benefits for people of working age.

By comparison with most other OECD countries, Australia has a small welfare state This is due to relatively low government spending on the core middle class welfare areas of retirement incomes, health and education. But Australia is close to the OECD average for income support for people of working age. Government spending on income support for these groups in Australia is higher than in Japan or the United States but lower than in the United Kingdom and other European countries. Government spending on family benefits, however (including benefits for sole parents, the family component of other pensions and benefits, and benefits for low income working families), is higher in Australia than in other OECD countries.[9]

Benefits for low income families became much more generous from the mid-1980s onwards, the idea being that increased family benefits would compensate for policy changes and economic developments that might adversely affect low income families. Although universal assistance through the tax system for families with children was withdrawn in 1976, increases in tax thresholds that particularly benefit families with children and single income earners have been introduced in recent years.

Family payments were made more generous upon the introduction of the new tax system in 2000. The income test on family assistance was eased as part of these changes, reducing the disincentive effects of withdrawing benefits as income increases for those who are already receiving benefits. It also increased the numbers of people who receive income-tested assistance and who are thus subject to the disincentives arising from such assistance. As a result of the extension of government income-tested assistance up the income scale and the increasing amounts of income tax needed to finance the welfare state, many families find themselves both substantial contributors to the welfare state and substantial beneficiaries of it. The churning of income that results when the same family receives both government assistance and pays taxes is wasteful of scarce tax dollars, damaging to the economy and does nothing for equity.

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This targeted welfare approach has to a considerable extent replaced Australia's traditional policy of regulating labour and product markets to assist independent workers. Those policies are now thought to be unsustainable because they involve too high an economic cost. Yet a good deal of labour market regulation remains.

Greater reliance on benefits has not been the only policy strategy available to governments. Removing barriers to high employment such as labour market regulation might have resulted in a more unequal distribution of earnings but overall employment would be higher. To date, however, Australian governments have been cautious in their approach to labour market deregulation.

The rise of welfare dependent families

The expansion of the welfare state since the 1960s has involved more generous benefits, easier access to benefits and the introduction of new payments for single parents and low income working families. The amount of government assistance depends on the number of children and the increase in government assistance has been particularly great for families with three or more children.

It is well known, for instance, that the expansion of sole parents benefits was both a response to increasing numbers of sole parent families during the 1970s and a reason why further expansion has since occurred. Less well known is the effect of the expansion of assistance for low-income families that has taken place since the mid-1980s. Income survey data gathered by the Australian Bureau of Statistics (ABS) between 1986 and 1998 has provided information on: the amount and source of gross weekly incomes; the number of earners and other family characteristics and; the percentage contribution of government pensions and benefits to gross incomes.[10]

The data show that for families with three or more children in particular, there has been an important shift in the source of income since the mid-1980s—that is, income from market sources has become less important and income from pensions and benefits has become more important. The percentage of couples with children for whom pensions and benefits made up less than 20% of income fell from 89.4% in 1986 to 78.9% in 1998. The reduction in the percentage of families with three or more children who received less than 20% of income in pensions and benefits was especially great—from 89.3% to 65.9%. But for couples without dependent children the fall was smaller—from 64.9% in 1986 to 63.1% in 1998.[11]

As regards work participation, for couples both with and without children, the percentage of two-earner families increased over the period from 1986 to 1999, and the percentage of one-earner families decreased. The proportion of families, however, with no earners increased for couples with children and decreased slightly for couples without children. The increase in the number of families with no earners was particularly large for couples with three or more children—from 10.2% in 1986 to 13.7% in 1998. By contrast, the percentage of families with no earners and one child fell from 10.0% to 9.8% over the same period.[12]

The replacement of earnings with benefits would have been of concern to earlier generations of Australians. Indeed, the increase in the number of jobless families is now widely recognised to be an important social problem. As noted above, the increase in the proportion of jobless families has been particularly great for those families that have received the largest increases in benefits.

Conclusion

Increased assistance to low income families was introduced during the 1980s and 1990s when concerns were raised about inequality in the distribution of earnings. The period was one of significant change in economic policy. Government withdrew from, or modified, some of the ways in which it had previously regulated labour and product markets. Increased assistance to low income families was one way in which governments could indicate a continued concern to achieve an equitable distribution of income.

Increased payments to low income families have not proved an easy answer to the problems they were designed to address, in that the equity advantages of these payments appear to entail adverse consequences including an increased number of families without work. Over the years these payments have been increased rather than reduced in scope, and it appears that the gains in equity were less and the adverse consequences greater than had been expected.

It is difficult to remove benefits once granted, but if the next few years are ones of increasing incomes for Australians, and benefits are not increased when community incomes increase generally, then joining the benefits system will automatically become less advantageous. This would provide an incremental approach to altering the balance between earnings and government benefits as the source of income for families.

Endnotes

1. FACS (Department of Family and Community Services), *Trends in Pension and Benefit Receipt*, Research Sheet Number 2 (Canberra: FACS, 1999), p. 3, fig.3.
2. FACS, p. 2, table 1.
3. A. Marshall, 'Three Lectures on Progress and Poverty', *Journal of Law and Economics*, vol. XX: I (April 1969), 189.
4. G. Himmelfarb, *The Demoralization of Society: From Victorian Virtues to Modern Values* (London: IEA Health and Welfare Unit, 1995).
5. A. Marshall, 'Three Lectures on Progress and Poverty', 190.
6. T. H. Kewley, *Social Security in Australia, 1990-72* (Sydney: Sydney University Press, 1973), 4-5.
7. F. Castles, *The Working Class and Welfare: Reflections on the Political Development of the Welfare State in Australia and New Zealand, 1890-1980* (Wellington: Port Nicholson Press, 1985), 82.
8. Castles, *The Working Class and Welfare*, 95.
9. OECD (Organisation for Economic Cooperation and Development) *OECD Social Expenditure Database, 1980-1996* (Paris: OECD, 1999).
10. ABS (Australian Bureau of Statistics), *Income Distribution*, Cat. No. 6523.0 (Canberra: ABS, various dates).
11. As above.
12. As above.