

Voluntary Welfare
A Greater Role for
Private Charities

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Chapter 1

Introduction

There are remarkable differences among the people we label as 'poor'. The poverty population includes the elderly poor as well as unwed teenage mothers. It includes people with university degrees as well as people who are functionally illiterate. It includes the healthy as well as the sick. It includes people who are able to support themselves through productive work as well as people who are mentally impaired. It includes people who use the welfare system only for temporary relief as well as people who become perpetual wards of the state.

Every year large numbers of people fall into poverty, but remain poor for only short periods of time. At the same time a large portion of people who are now poor will remain poor for very long periods of time. Studies in the US have found that

- among the people who fall into poverty in any given year, 45 per cent will be out of poverty by the end of the year;
- seventy per cent will be out of poverty within three years;
- yet of those who currently are poor, about half will remain poor for at least a decade.

In Australia, data supplied by the Commonwealth Department of Social Security (DSS) show that

- of the recipients of unemployment benefit in August 1989, 21 per cent had been receiving benefit for more than two years;
- six per cent had been receiving the benefit for more than five years;

- many of those who come off long-term unemployment benefit move on to other pensions (such as the invalid pension) and do not re-enter employment.

In addition, 54 per cent of single parent pensioners in June 1989 had been receiving the pension for more than two years, and 26 per cent had been receiving it for more than five years. In New Zealand, more than a quarter of the individuals who claimed the Domestic Purposes Benefit in 1982 were still receiving it in 1987 (Woodfield, 1989:138).

The answer Western governments give to the problem of poverty is to spend big. The US government earmarks at least \$US100 billion a year of the national budget to be spent on means-tested programs. In Australia, social security expenditure in 1987-88 amounted to \$A22.6 billion (Commonwealth of Australia, 1987-88), or nearly \$A1400 per head of population. Unfortunately, rules written in Canberra, Washington, London or Wellington are tragically inadequate to take account of the differences in attitude and circumstance of the millions of recipients of welfare money. For the most part, government welfare programs encourage dependency and anti-social behaviour and do little to encourage self-reliance and desirable behaviour.

When Western governments began to get involved in welfare it was meant to serve as a social safety net — to help people who failed to get help from the private sector. Yet it is becoming increasingly obvious that today the private sector is providing much of the real social safety net by helping people that government programs simply do not reach.

- Ninety-four per cent of all shelters for the homeless in the US are operated by private sector organisations.
- Studies show that in the US, where private welfare is comprehensive, as many as 80 per cent of low-income people turn to the private sector first when faced with a crisis.
- The authors of the main study of private welfare organisations in Australia claim that "The tens of thousands of NGWOs [non-government welfare organisations] in Australia give some credence to the frequent assertion that non-government action is highly regarded, able to provide support, able to pioneer new services, and above all able to provide a degree of flexibility which is not always apparent

in government' (Milligan et al., 1984:7).

- In Australia more than in most countries, government-financed services are delivered by private welfare organisations. In New South Wales, before the mid-1980s emergency assistance was provided by the then Department of Youth and Community Services. Since then there has been a shift to the provision of services by voluntary charities. Under the Electricity Accounts Payments Assistance program, individuals who have trouble paying their electricity bills can apply to one of a number of private organisations for vouchers that can then be used to pay the bills in whole or in part. This scheme is expected to cost \$5 million in 1989-90. Similarly, the Sydney Water Board's Water Payments Assistance Program relies on voluntary organisations to help individuals pay their water rates bills.
- In New Zealand, the Department of Social Welfare is referring increasing numbers of clients to voluntary charities. Reasons given for this include the movement of aged and psychiatric cases from hospitals to the community, increased numbers and dependency of the aged, the emergence of street kids, referrals from the police and the family courts, declining government residential care, and categories of need for which there is no government assistance mechanism (Woodfield, 1989:149).

There is mounting evidence that the private sector does a better job at getting aid first to those who need it most, at encouraging self-sufficiency and self-reliance, at encouraging the family unit, and at using resources efficiently. Currently, governments have a monopoly on deciding how welfare tax dollars are spent. It is time to end this monopoly by allowing private citizens to make decisions on how their welfare tax dollars should be spent.

A proposal to privatise the welfare state begins on page 44 and is followed by 21 questions and answers on the details of the proposal.

Chapter 2

The Welfare-Poverty Debate

On 24 June 1987 Prime Minister Bob Hawke committed his government to the alleviation of child poverty by 1990. At a press conference in Townsville he categorically stated that this was not mere rhetoric and that he had not committed his government to the impossible. This commitment acted as a major catalyst of a subsequent debate on welfare. On one side of that debate are those who maintain that welfare spending really helps people who are in poverty because of external circumstances over which they have no control; they argue that poverty can in principle be eliminated by government action. On the other hand there are those who argue that the Australian welfare state is creating poverty, encouraging hundreds of thousands of people to choose the condition of poverty because of the attractions created by an overly generous welfare system. For them the problem with welfare handouts, including the sort intended to eliminate child poverty by 1990, is that they imprison the poor in a dependency trap. (By 1989, the Hawke Government had subtly amended the terms of its commitment to that of ensuring that there was no financial **need** for any child to be living in poverty by 1990.)

This study argues that there is some truth on both sides of the debate. Welfare does indeed help people who find themselves in a condition of poverty over which they have little or no control. At the same time there is substantial evidence that the welfare state encourages dependency, the breakup of families and the emergence of the single-parent household — effects of which no humane, well-meaning person can approve.

An ideal welfare system is one that helps people who are in genuine need, without at the same time encouraging anti-social behaviour. In this study we argue that this ideal cannot be achieved through reform and modification of federal welfare programs. Nor can it be achieved by turning over the administration of such programs to State and local governments.

The ideal welfare system requires 'hands-on-management', a system in which the amount and type of aid is determined on a case-

by-case basis, depending on the individual circumstances of the recipient. Such a system can be run and administered only by the private sector.

In short, the solution to the welfare-poverty crisis is to privatise the social security system.

Evidence of a Problem in the United States

That there is a problem with the state-run welfare systems is confirmed by evidence from many sources. The evidence comes from anecdotal reports, scholarly analysis and statistical tests. All told, the evidence of a problem is clear, unmistakable, undeniable, and, quite frankly, overwhelming.

What policy-makers are coming to realise only reluctantly is a fact that any radio talk show host can confirm on a moment's notice. Let the talk show host bring up the subject of welfare and the phone banks will light up immediately as callers eagerly recount first-hand knowledge of young women who intentionally become pregnant in order to become eligible for welfare, of welfare recipients who refuse employment opportunities in order to retain welfare eligibility, of welfare recipients who cheat and defraud the system, and so on.

Most social scientists are reluctant to base public policy on evidence collected in such a casual way. However, a good social scientist does not totally ignore such evidence either.

Beginning in the mid-1960s a number of studies of the welfare system were conducted by US scholars with impeccable academic credentials. None of these studies actually **proved** that welfare was causing poverty. Yet each provided a penetrating analysis of particular dimensions of the problem and did so in very powerful and persuasive ways.

The Moynihan study. *The Negro family*, by Daniel Patrick Moynihan (1965), has become a classic in the field. Its author, then a professor at Harvard University, and now a leading Democrat in the US Senate, expressed alarm over the fact that 20 per cent of all black children were living in single-parent households. (Today the figure is more than 60 per cent.) The book touched off a storm of controversy, as did his later advice to the Nixon Administration: Quit pouring money into the black community and instead follow a policy of 'benign neglect'.

The Anderson study. The path-breaking book *Welfare* was written by Martin Anderson (1978), a Senior Fellow at Stanford University's Hoover Institution and most recently chief of the Office of

Policy Development in the administration of President Ronald Reagan. In it the author calculated how much a poor family in California would lose (in terms of taxes and lost welfare benefits) if the breadwinner went into the marketplace and earned an extra dollar of income. Astonishingly, Anderson discovered that:

- at almost every level of income, low-income families faced the highest effective tax rates of any group in the nation;
- poor families could lose as much as 80 cents for earning one more dollar from productive work;
- in the case of certain in-kind benefits such as Medicaid, welfare recipients who earned an extra dollar of income lost considerably more than one dollar in benefits.

Anderson concluded that the welfare system was designed from top to bottom to encourage dependency and to discourage self-reliance.

The Gilder studies. George Gilder is a sociologist who in the mid-1970s spent several years living among poor families who were receiving welfare. Gilder's study *Visible Man* (1981a) and his best-seller, *Wealth and Poverty* (1981b), analysed in great detail how the welfare system was destroying the family, especially the black family, in low-income communities.

The NCPA study. 'Welfare and Poverty' by John Goodman, President of the National Center for Policy Analysis, was the first study to document how the welfare establishment has managed to spend increasingly larger sums of money, while at the same time maximising the poverty count. Official measurements of poverty count only money income, and ignore in-kind benefits such as medical care, food stamps and public housing. By spending ever-increasing amounts of money on in-kind (non-cash) benefits, instead of cash benefits, the welfare establishment has managed to make welfare increasingly attractive without disqualifying recipients by endangering their status as 'poor':

- between 1965 and 1981, cash transfers to the poor hardly changed at all in real terms;
- over the same period, non-cash benefits for the poor increased 5238 per cent (Goodman, 1985:8-9).

The Murray study. More than any other single study, Charles Murray's *Losing Ground* (1984) shocked those on both sides of US politics into a realisation that something was wrong with the US welfare system. Murray argued that in the central cities the black family has been all but destroyed, and he made a forceful case that the welfare system bore chief responsibility for this shocking development.

Evidence of a Problem in Australia and New Zealand

In recent years, some studies of the welfare states in Australia and New Zealand have come to similar conclusions.

The CIS Social Welfare Research Program. The Centre for Independent Studies' continuing research program into social welfare (of which this volume forms a part) has published several significant findings. P. A. McGavin argues that Australia's welfare state and labour market regulations interact in a perverse manner and lead to several unintended but undesirable outcomes, such as a process of 'cumulation' in long-term unemployment (1989a:25), rising relative unit labour costs, and a higher dependency ratio and lower level of wage employment than would otherwise be the case (1989b). Barry Maley underlines the crucial role of labour market failure in Australia by noting that 'of more than 800 000 children in poor families dependent on government benefits in 1987-88, 660 000 were in families affected by unemployment or marriage breakdown' (Maley, 1990:20).

Some of the briefer studies undertaken for the CIS program have found similar perverse incentives at work in New Zealand's state welfare system. Alan Woodfield, for example, notes that the rapid rise in the number of recipients of the Domestic Purposes Benefit over the last 15 years has been accompanied by a rise in the proportion of ex-nuptial births to total births, from just under 16 per cent in 1974 to 27 per cent in 1986 (Woodfield, 1989:143-4). At the same time the proportion of single parents receiving the benefit has been steadily rising and is now well over half. It has been estimated that 'if the solo parent population grows at the same rate as the beneficiary solo parent population, then there would be 151 000 solo parent families by 1991, comprising 33 per cent of all families' (Woodfield, 1989:141).

The Swan-Bernstam study. This study of the Supporting Parent's Benefit (SPB) in Australia by Peter Swan and Mikhail Bernstam (1987) presents evidence suggesting that more and more teenage girls are deliberately having children so as to qualify for the pension (whose value is much higher than the single unemployment benefit). Between 1975 and 1987 the number of teenagers receiving SPB rose

from 4420 to 9948, most of whom were unmarried when they became mothers. And although teenagers represented a falling share of the total number of unmarried mothers (excluding separated wives and separated de facto wives) receiving the pension between 1976 and 1986, that number nevertheless rose by 125 per cent. In addition, the authors calculate that the combined disposable income of a two-child couple can, if the male is the breadwinner and also if he is unemployed, rise by 77 per cent on separation. They find it 'hard to understand why an even higher proportion of low-income families do not separate and why, after relationships are terminated, new partners are found so frequently' (1987:24).

The National Priorities Project. This research project, based at the Centre of Policy Studies, Monash University, has published two major studies of Australia's taxation system and public spending programs. The second study includes an analysis of the incentive effects generated by the Family Allowance Supplement (FAS), a selective welfare program introduced in 1987 in order to fulfil Prime Minister Hawke's pledge that child poverty would be eliminated by 1990. The main research finding is that the interaction of FAS with the tax system generates a serious poverty trap by confronting many families on below-average weekly earnings with effective marginal tax rates in excess of 80 per cent, and in some cases more than 100 per cent (Freebairn et al., 1988:106-11).

The EPAC study. Published in 1988 by the Economic Planning Advisory Council, this study differs from the other Australian studies cited here in being government-financed. It avoids making judgments 'as to exactly how responsive individual behaviour is to the incentives which may be provided by social transfers' (EPAC, 1988a:36). Nevertheless, its strong emphasis on the precise ways in which those incentives are generated suggests that the authors accept that poverty and unemployment can be largely explained as behavioural adaptations to the incentives produced by the tax-transfer system.

Studies of the economic behaviour of the aged. The economic behaviour of the aged provides further evidence about the effects of the incentives that arise from the taxation and social security systems. The marked shift to earlier retirement that has occurred in Australia since 1966 probably reflects the favourable economic experience (including high home-ownership ratios) of those who were employed during the three decades following World War II. But some features of Australia's taxation and social security systems discourage employment much beyond age 55. These include improvements in welfare benefits, the frequent availability of full retirement benefits at

age 55 in lump sum form, and high marginal tax rates and their interaction with inflation (see EPAC, 1988b; Cox, 1986; Woodland, 1987).

There is good reason to believe that the social security incomes and assets tests affect the savings and portfolio behaviour of pensioners. According to Freebairn et al. (1989:173), DSS statistics indicate that 73 per cent of the population of age-pension age have assets (excluding the home) of below \$50 000; 22 per cent have assets in excess of \$155 000; while only 5 per cent have assets of a value between those figures. This unusual distribution is described as 'a monument to how government regulation has distorted behaviour'.

Discussing the 'dependency' problem of state welfare in his paper for the CIS Social Welfare Research Program, Charles Murray writes:

In effect ... the new policies changed the rules of the game for poor people and especially for poor young people. The effect of the new rules was to make it profitable for the poor to behave in the short term in ways that were destructive in the long term. We made it economically possible to have a baby without a father, possible to get a high school diploma without studying, possible to get along without a job, possible to commit crimes and suffer no immediate consequences. In the long term, all of these behaviours still had disastrous consequences: that didn't change. But we masked those long-term consequences by softening the short-term consequences, and thereby subsidised irretrievable mistakes. (Murray, 1989:77)

Statistical Analysis

One of the criticisms of the studies by Murray, Gilder and others is that they did not perform rigorous statistical tests to support their positions. Social scientists, by nature, like controlled experiments and rigorously developed econometric tests of important propositions. As it turns out, this kind of evidence is now coming to light in America.

The negative income tax experiments. In controlled experiments performed by the US Department of Health and Human Services, the effects of a guaranteed income on families were observed over several years in large cities. In the Seattle and Denver Income Maintenance Experiments, families were given a minimum level of income by the federal government. Compared to similarly situated families not on welfare, families who were given the income changed their behaviour substantially.

- The number of hours of work by husbands dropped 9 per cent. For wives, it dropped 20 per cent; for young male adults it dropped an incredible 43 per cent.
- The length of unemployment among husbands increased 27 per cent. Among wives it increased 42 per cent, and for single female household heads it increased 60 per cent.
- Divorce increased 36 per cent among whites and 42 per cent among blacks (Murray, 1984:150-2; see also US Department of Health and Human Services, 1983).

The Gallaway-Vedder study. This study, produced for the NCPA by Lowell Gallaway and Richard Vedder (1986) of Ohio University, was the first statistical analysis of its kind, attempting to document the number of people who were living in poverty **by choice** because of the attractiveness of the welfare system. The findings of the study were shocking.

- At least 5.7 million people — about one-sixth of the poverty population — are living in poverty by choice as a result of the generosity of public welfare.
- Each additional \$1 billion in welfare spending in the US saw a corresponding increase in the poverty population by 250 000 people.

Since 1972, there has been a strong, positive relationship between the amount of welfare spending and the amount of poverty, after adjusting for other important factors, including the unemployment rate and the rate of economic growth. Put simply, we are experiencing more poverty because we have been increasing the amount we pay people to be poor.

One of the greatest tragedies of the American welfare system is its effects on children. Statistical evidence shows that:

- the increasing attractiveness of welfare benefits in the US throughout the 1970s has increased poverty among children by more than 20 per cent;
- almost 2.5 million more children are living in poverty today as a direct result of the expanded welfare state.

The American States that have paid the most generous benefits to welfare mothers have experienced the greatest increases in child poverty. By contrast, States that have been the least generous have seen major reductions in child poverty.

- Between 1969 and 1979, the child poverty rate rose 27.9 per cent in the ten States with the highest welfare benefits.
- Over the same period of time, the child poverty rate fell by 17.4 per cent in the ten States with the lowest welfare benefits.

The GAO Report. In the previous studies, the focus was on the harmful effects of increased welfare benefits on the behaviour of people. What made this study by the General Accounting Office (1984) unique was that it focused on the opposite phenomenon: What happens to the behaviour of people when welfare benefits are reduced?

In 1981, the Reagan Administration tightened eligibility rules for Aid to Families with Dependent Children (AFDC), the equivalent of Australia's Supporting Parents Benefit. The new rules made it more difficult for less needy people to get covered, and led to a reduction in the number of AFDC recipients by about 500 000 people per year. As a result of the changes, a large number of welfare mothers scattered throughout the country lost their AFDC benefits. More than half of these mothers also lost food stamp benefits.

If the granting of welfare benefits makes people more dependent and less likely to engage in productive work, then the taking away of welfare benefits should have the reverse effect: Denied welfare benefits, former recipients would be expected to engage in more productive work and other behaviour which causes families to be reunited. The GAO study sheds interesting light on these speculations.

Although couched in bureaucratese, and worded carefully to avoid making any judgments about why single mothers were behaving as they did, the GAO study produced evidence that shows what common sense and previous studies already suggested. Bereft of single mothers' benefits, welfare mothers turned to private options to recoup the losses.

The GAO study focused mainly on welfare mothers who were earning a private income before and after losing their AFDC benefits. The study showed that approximately two years after losing AFDC benefits:

- on the average, welfare mothers had increased the number of hours they worked, were commanding a higher hourly wage, and overall had increased their real income from working significantly;
- in Boston, 43 per cent of the welfare mothers had at least as much or more total income after they lost their welfare benefits as they had before. (Their average real income from working increased 25 per cent.)

Not only did the welfare mothers who lost AFDC benefits respond by changing their work behaviour, they also reacted to the loss of welfare benefits by making important changes in their family lives.

- Two years after losing AFDC benefits, a significant number of welfare mothers had partnered with an adult male.
- In Syracuse, 19 per cent did so.
- In Dallas, 22 per cent did so.

Other studies. Other, more general studies of the welfare system have confirmed the existence of a major problem. These include studies from some groups traditionally associated with the welfare lobby in the US, including the Wisconsin Institute for Research on Poverty and the Urban Institute. For example:

- One recent study concludes that all US transfer payments combined have reduced the labour force by 4.8 per cent (Danziger et al., 1981).
- Another study suggests that all of the Reagan welfare budget cuts have increased the labour force by as many as one million people (Haveman, 1984; see also Henderson, 1984:9-12).

However, before drawing any general conclusions about the welfare system from these findings we need to examine more closely the main theories purporting to explain poverty and the effects of welfare.

Chapter 3

Three Views of Poverty and Welfare

When welfare policy is set by government (whether at the national, State or local level), politicians invariably search for a single, all-encompassing explanation of what the welfare program is all about. What follows usually is a single set of rules that apply to all beneficiaries, regardless of individual attitudes or circumstances.

It is in this context that two opposing views of the problem of poverty persistently clash. One view sees the problem of poverty as a lack of income, caused by conditions over which low-income individuals have no control. The other view sees the problem of poverty as largely one of individual behaviour which people, in principle, can control.

In our own day, the former view is forcefully expressed by American scholars such as Michael Harrington (1984), Sar A. Levitan and Clifford M. Johnson (1984), and John E. Schwartz (1983). The latter view is expressed with equal vigour by Warren Brookes (1982), George Gilder (1981b) and Charles Murray (1984).

The argument that poverty is caused by conditions over which low-income people have no control is not a new one. Nineteenth-century critics of the Elizabethan Poor Laws, such as Charles Dickens, Arnold Bennett and George Lansbury, repeatedly emphasised this view, and attacked the Poor Law system as inhumane. For example, of a visit to a workhouse for the poor, Lansbury once wrote:

Going down the narrow road, ringing the bell, waiting while an official with a not-too-pleasant face looked through a grating to see who was there, and hearing his unpleasant voice ... made it easy for me to understand why the poor dreaded and hated these places... It was not necessary to write the words 'Abandon hope all ye who enter here' ... everything possible was done to inflict mental and moral degradation ... of goodwill, kindness, there was none. (Quoted in Bruce, 1961:41)

On the other hand, there were other prominent people who devoted their lives to improving the plight of the poor, yet concluded that poverty was mainly the result of individual behaviour. Charles S. Loch, secretary of the Charity Organisation Society, one of the most important private charities in England at the turn of the century, wrote that 'Want of employment in nine cases out of ten in which the plea is used is not the cause of distress. It is, as often as not, drink' (quoted in Gilbert, 1966:51-2). In Loch's view, it was important that the conditions under which relief was given never be perceived as more desirable than the least appealing job opportunities in the labour market.

Policy Implications

These two opposing views — poverty as the result of conditions over which people have no control, and poverty as the result of individual choice and behaviour — have important implications for public policy.

In modern times, those who take the bureaucratic approach to the problem tend to define it in terms of people's financial condition. Accordingly, the magnitude of the problem is **measured** by statisticians who attempt to count how many families have incomes which fall below the official poverty line. The solution to the problem is to give families living in poverty enough money to raise their income levels above the poverty line.

It follows that the purpose of welfare is quite simple: To give away money. And, indeed, this is an apt way of describing support to single mothers, the American food stamp program and other entitlement programs in existence around the world. The bureaucrats who run these programs are literally in the business of giving away money. By and large, the program administrators give little thought to making positive changes in the behaviour of their clientele. Defenders of the programs either minimise or ignore the negative behavioural consequences these programs create.

Thus, Greg Duncan and Richard Coe (1985) argue that the US welfare system serves as a social safety net, which gives relief to people in need without encouraging long-term dependency.

In contrast, those who take a behavioural approach to the problem of poverty see the Australian and US welfare systems as ones that increasingly reward bad behaviour. Why do we have increasing poverty in countries with comprehensive welfare programs? To

Charles Murray (1985), the answer is straightforward: We have increasing poverty because we are paying people to be poor.

A Third View of Welfare and Poverty

Which view is correct? It is our position that neither view completely or accurately describes the welfare-poverty crisis. It is true that some people are poor due to conditions over which they have little or no control. It is also true that other people are poor by choice. The correct way to depict the welfare system is by recognising that the system gives relief to people in need, while at the same time encouraging perverse behaviour.

This third view is depicted in Table 1, based on estimates of the effects of welfare on poverty taken from the Galloway-Vedder study. The evidence is overwhelming that the welfare system does both harm and good at the same time.

Table 1

Two Views of Poverty

	<i>Problem</i>	<i>Solution</i>
<i>Bureaucratic Approach:</i>	Lack of income and goods/services	Provide income
<i>Behavioural Approach:</i>	Behaviour	Change behaviour

Two Views of Public Welfare Programs

	<i>Activity</i>	<i>Result</i>
<i>Bureaucratic approach:</i>	Welfare increases income	Reduces poverty
<i>Behavioral approach:</i>	Welfare rewards bad behaviour	Increases poverty

A Third View of Welfare and Poverty

<i>For the nation as a whole:</i>	More welfare produces more poverty
<i>For individuals:</i>	Welfare benefits lead to less poverty among some individuals and more poverty among others

Long-Term and Short-Term Poverty

The phenomena of long-term and short-term poverty provide evidence for the view that welfare recipients do not all respond in the same way to the opportunities and the incentives created by welfare benefits.

In a fascinating study of the American poverty population, Mary Jo Bane and David T. Ellwood (1985) of Harvard University found that there are striking differences among poor people with respect to the reasons why they become poor, how long they remain poor, and why and how they cease being poor. It is precisely because of these differences that there are so many statistical generalisations about the poverty population which are seemingly contradictory.

By way of analogy, Bane and Ellwood compare the poverty population to patients in a hospital. Looking at hospital admissions, one will see that the vast majority of people admitted into hospitals stay there for only short periods of time. On the basis of that observation, one might be tempted to conclude that there is no real problem of long-term hospitalisation. That conclusion is wrong, however. Looking at the patients occupying hospital beds, on any given day, one will see that a large portion of those beds is filled with the chronically ill, whose hospital stays are very long. In other words the chronically ill account for a small fraction of hospital admissions, but they occupy a large fraction of hospital beds.

A similar observation may be made about the 'admission rate' of (non-elderly) poor people to the welfare rolls.

- Among people who become poor at any point in time, 45 per cent will be out of poverty within one year.
- Seventy per cent will be out of poverty within three years.
- Only 12 per cent will remain in poverty for ten years or more.

Statistics such as these are frequently quoted by apologists for the welfare state. Yet they are misleading, just as in the case of the chronically ill who fill a large portion of hospital beds.

- Among people who currently are poor, more than half will remain in poverty for 10 years or more.

- The average black child in poverty today will remain in poverty for almost two decades.
- As already noted, 21 per cent of the individuals receiving unemployment benefit in Australia in August 1989 had been receiving benefit for more than two years, and 6 per cent had been receiving benefit for more than five years.

Bane and Ellwood (1985:25) also discovered that even among the short-term poor, there are radical differences in the reasons for their poverty and in the methods that are used to get out of poverty. In their own words, 'The poverty population is extremely heterogeneous'.

These differences are important. Continuing with the hospital analogy, no one in his right mind would recommend that the chronically ill be given the same medical treatment as the short-stay patient, or that all short-stay patients be diagnosed and treated in the same way, regardless of medical condition. Yet, by and large, that is precisely the way government runs the welfare state.

There are some apparent exceptions. In its 1988 Budget the Australian federal government announced the NEW-START program, which provides concentrated assistance for the long-term unemployed in re-entering the workforce. This is in addition to other measures encouraging active job search by all recipients of unemployment benefit (EPAC, 1988a:36). Such initiatives suggest that the government has become increasingly alert in recent years to the various behavioural changes that can be induced by welfare programs.

Yet the fact remains that a centralised system of state welfare cannot treat recipients on an individual basis but must categorise them to a greater or lesser extent. So, by remaining ignorant of their particular circumstances, it confronts many of them with inappropriate and counterproductive incentives.

Chapter 4

Boston and Dallas: a Case Study

Further evidence of the difficulties in generalising about the effects of welfare, even the effects of a fairly well-structured program like AFDC, can be appreciated by comparing welfare mothers in Dallas and Boston who lost their AFDC benefits as a result of program changes in 1981. (This comparison, based on General Accounting Office's initial analyses of the evaluation of the 1981 AFDC changes, is possible because the American welfare state, in strong contrast to those of Europe and Australasia, is largely decentralised and administered by State governments.)

Differences in Benefits

In terms of welfare benefits, Massachusetts is one of the biggest welfare States in the US. Texas, by contrast, ranks near the bottom of the 50 States in AFDC payments and has a record that many would regard as stingy.

- The standard AFDC payment to a family of three in Boston in 1981 was more than three times greater than the payment in Dallas (\$379 per month versus \$116).
- In addition, the Boston AFDC mother had many more opportunities to exploit the entire welfare system.

To see how lucrative welfare benefits in Boston are, consider the case of a welfare mother as described by a reporter writing in the *Boston Globe* in 1975:

The mother is well-organised. She buys food stamps twice a month, refuses to live in a housing project, is a member of a community women's group at Catholic charities, and is studying for her high school diploma. Her bimonthly cash grant is \$466; she gets a flat grant every three months of \$142; and her

monthly savings from food stamps amount to \$86. Her cash income may be given as \$599 monthly, or \$7188 a year. If she and her family spent the average amount paid personally for health care in this country (and the mother gets some psychiatric care), this would amount at full cost to an additional \$1750 in health care expenses. Since there are no financial restrictions for the family on the use of health care, and the mother is intelligent and knowledgeable, one may assume that full use of this opportunity is taken. The three older children go free of charge to an alternative school which costs paying pupils \$2000 a year, and another child goes to a day care centre whose cost for a paying child would be \$1000 a year. Cash income and free health and education services to this family thus amount to \$16 028. The older children work summers, and I will not cost that out. The family pays no taxes, and need put nothing aside for savings, as the welfare department is committed to meeting its needs. A working head of family would have to earn at least \$20 000 to match this standard of living. (Cited in Anderson, 1978:36)

It is worth noting here that the official Australian definition of poverty, based on the report of the Commission of Inquiry into Poverty (1975) (Henderson Report), is similarly misleading. The Henderson 'poverty line' as of the final quarter of 1987 for a family with a working husband, a non-working wife, and two children was \$A285.92 in average weekly earnings (\$A14 867.84 a year). Yet household expenditure figures in the Australian Bureau of Statistic's *1984 Household Expenditure Survey*, adjusted for 1988 values, show that the average family of that description with average weekly earnings of \$285.92 spent only \$227 a week, or \$A11 804 a year, on basic household expenses like housing, food, transport, medical care, etc. In addition, if welfare transfers (such as the spouse rebate and the means-tested child allowance) are taken into account, the family's real annual income could rise to over \$A20 000. Clearly, one result of a 'poverty line' criterion of eligibility for welfare transfers has been to turn many of those technically below the line into the 'welfare rich'.

Differences in Conditions

As Table 2 (see p.23) shows, the characteristics of welfare mothers who lost their AFDC benefits in Dallas and Boston are quite different. Clearly the welfare mother in Dallas was in greater need.

- The Dallas mother had more children and younger children than her Boston counterpart.
- After AFDC payments were discontinued, the Boston mother was three times more likely than the Dallas mother to be above the poverty level, three times more likely to have private health insurance, and 38 per cent less likely to turn to private charity for food.

Differences in Ability

There also were clear differences in abilities to compete in the labour market.

- Twenty-nine per cent of the Boston mothers had some post-secondary education, compared to only 11 per cent in Dallas.
- Surprisingly, 2.5 per cent of the Boston mothers who lost AFDC payments had completed some tertiary education certificate or diploma and 1.7 per cent had a university degree.
- The Boston mother also showed greater ability to hold down a job for a longer period of time. Length of time with the current employer was twice as long in Boston as it was in Dallas.

Differences in Attitude toward Welfare

Interestingly, the Boston AFDC mother showed a greater propensity to accept welfare and take advantage of the welfare system.

- The Boston mother went on AFDC more quickly, stayed on it longer, and was more likely to have received other welfare benefits (such as housing subsidies).
- She also was more likely than the Dallas mother to have received AFDC as a child in a single parent family.

Differences in Labour Market Response

Among AFDC mothers who lost their benefits in 1981, the loss in Boston was more than twice the loss in Dallas. In addition, about 85 per cent of the Boston women also lost food stamps, compared with only 42 per cent in Dallas. Yet despite the greater loss of benefits in Boston, the welfare mothers there suffered much less economic dislocation than those in Dallas.

- Total income for Boston mothers declined only 12 per cent.
- Total income for Dallas mothers declined 31 per cent.

The difference stems from the fact that Boston mothers were more likely to recoup in the private marketplace income that they had lost from AFDC and food stamps.

- Boston mothers increased the hours they worked, earned more per hour, and, on average, increased their monthly earnings by 25 per cent.
- Thirty-five per cent of Boston mothers actually had more total income after they lost their AFDC benefits than they had before.
- By contrast, in Dallas (with a lower unemployment rate than Boston) there was, on the average, virtually no increase in hours worked, and only a 6 per cent increase in monthly earnings.

It appears, then, that Boston's lavish welfare benefits, doled out to people who were not all that needy, were discouraging productive work, and that removing these benefits spurred them to increase their work effort. By contrast, in Dallas, where AFDC mothers had a greater need and less ability to compete in the marketplace, welfare benefits had only a moderately discouraging effect.

Differences in Response to Household Size

A very different story emerges when we look at the effects of welfare on the family.

- In Boston, 5 per cent of welfare mothers increased their households by at least one adult.
- By contrast, 22 per cent of Dallas mothers increased their households by at least one adult.

It appears that welfare's effect on the family is greatest where it makes the greatest financial difference.

Differences in Response to the Welfare Option

Finally, if given the choice between working and receiving no welfare or not working and becoming dependent on the dole, how do welfare mothers respond?

- In Boston, 11 per cent returned to AFDC (usually after ceasing employment), whereas in Dallas the percentage was twice as high.
- Moreover, of those who returned to AFDC, the length of time on welfare was much shorter in Boston than in Dallas.

It appears that the more lucrative the private marketplace options, the more likely that work will be chosen over welfare.

The comparison of these two cities, then, underscores the difficulty in making generalisations about the nation's welfare system. Even generalisations about a single city are hazardous. In Dallas, for example, 24 per cent of welfare mothers who lost AFDC benefits had real incomes just as high or higher than they had when they were receiving benefits and, thus, suffered no enduring economic hardship.

Table 2

Effects of Loss of Benefits on Welfare Mothers
(Two years after loss of benefits)

Loss of Welfare Benefits	Boston	Dallas
Monthly AFDC payment lost (\$)	156.00	71.00
% also losing food stamp benefits	85.0	42.0
Characteristics of AFDC Mothers		
At least some post-secondary education (%)	29.0	11.0
Family size (no. of people)	2.8	3.4
% with children under six years-old	33.0	52.0
In public housing or receiving housing subsidy	56.0	43.0
No. of years since receiving first AFDC payment	8.5	6.1
No. of years between birth of first child and AFDC coverage	4.6	5.3
% who received AFDC as a child	19.0	16.0
No. of years with current employer	3.4	1.7
Economic Well-Being After Loss of Benefits		
Average change in total income (%)	-12.0	-31.0
% whose income was just as high or higher than when on welfare	43.0	24.0
% whose total income actually increased	35.0	21.0
% with household income above poverty level	66.0	18.0
% with private health insurance policy	49.0	16.0
% with no health insurance of any kind	28.0	59.0
Effects of Loss of Benefits on Work		
Increase in hours worked per week	2.2	0
Increase in hourly wage (\$)	0.85	0.27
Increase in monthly earnings (\$)	176.00	36.00
% Increase in monthly earnings	25.0	6.0
Other Responses to Loss of Benefits		
Turned to private charity for food (%)	15.0	24.0
Increased household size (%)	5.0	22.0
Returned to AFDC (usually after ending employment)(%)	11.0	22.0

Source: *An Evaluation of the 1981 AFDC Changes: Initial Analyses*, General Accounting Office, April 2, 1984. Although a final report, *An Evaluation of the 1981 AFDC Changes: Final Report* was released by the GAO on June 2, 1985, some of the computer data for the Boston site were unavailable. However, those numbers which were available support the general conclusions discussed above.

Chapter 5

Public and Private Welfare Systems Compared

In their classic study, *Paying People to be Poor*, Gallaway and Vedder (1986) make a simple, but profound observation: We cannot give aid without affecting behaviour. Furthermore, the more aid we give, the greater the likelihood of changing behaviour in a perverse way.

The GAO study and the Bane and Ellwood study have an equally simple yet profound implication: People are different. The welfare population of one city can differ in remarkable ways from the welfare population of another. Even within a city, the response of one group can differ remarkably from the response of another group. Carried to its logical conclusion, the point is: Within the welfare population there are remarkable differences among individuals, with respect to their circumstance and their personal responses to incentives.

These two findings have devastating implications for policy-makers. What the findings mean is that it is almost impossible to design, at the federal level, a welfare system that accomplishes what most people want from public charity.

Characteristics of a Good Welfare System

But what exactly is it that most people want in terms of an effective, responsible welfare system? The following guidelines probably would command widespread support:

1. The system should be guided by the philosophy that most people can and should take responsibility for supporting themselves and their families. In the absence of physical or mental impairment, individuals should perceive that society expects them to make every effort to support themselves and their families.
2. Aid should be given first to people who need it most. Since

there always will be a limit to the number of welfare dollars available to spend, the people in greatest need should be given the highest priority.

3. Aid should be given in a way that does not necessarily discourage independence and self-reliance. Procedures should be adopted to create positive incentives for self-sufficiency.
4. The welfare system should not encourage the break-up of the family.
5. Short-term help should be available to many; long-term help should be reserved for a few. A humane welfare system is one that readily provides temporary and emergency help to those in need, while a responsible welfare system is one that provides permanent aid to only the very few who cannot support themselves.
6. The goals of the welfare system should be achieved at the minimum cost. As with every other social goal, it is in our self-interest to find the most cost-effective ways of operating the welfare system based on these principles.

The Role of Private Sector Charity

Although volumes have been written about the failures of government welfare programs, the academic and scholarly community has paid surprisingly little attention to private sector charity and its potential for observing the six guidelines listed above.

The private sector is playing an extremely important role.

- In 1984 total charitable contributions in the US reached \$US74.25 billion, with contributions by individuals accounting for 83 per cent (\$61.55 billion) of that total (American Association of Fund-Raising Counsel [AAFC] Inc., 1985:7).
- According to a 1983 Gallup Poll, more than 85 per cent of all adult Americans make some charitable contribution each year, and 47 per cent volunteer on average three hours each per week to charitable causes.

- According to a 1989 survey by AGB:McNair, Australians donate about \$A278 million annually to organisations devoted to social welfare and care of the handicapped. About 60 per cent of the population make donations to social welfare organisations at least once annually (O'Keefe et al., 1989).
- In 1985, Britain's 250 000 registered charities (including fee-charging bodies such as independent schools) received over £12.5 billion in donations, a figure equivalent to 4 per cent of Britain's GDP for that year (*The Economist*, 4-10 June 1988, pp. 53-4).
- Milligan et al. (1984:x-xi) estimate that there are between 26 000 and 49 000 non-government welfare organisations in Australia, depending on the definition employed. Their total income is between \$2.3 billion and \$5.9 billion per annum. Of this about 49 per cent is derived from internal sources (fundraising, membership dues, fees for services and investments).
- According to Jill Hardwick and Adam Graycar (1982:11), the total number of Australian adults who contribute some of their time to voluntary work with charities is between 751 388 and 1 436 398, or between 7 and 13 per cent of the Australian population aged 15 and over. On average these people contributed four hours each per week. In Christchurch alone, charities employ more than 500 full-time and over 1100 part-time workers (Woodfield, 1989:149).
- Voluntary organisations are involved in a wide variety of welfare activities. For example, the Sydney City Mission, which in 1988 received nearly \$6.5 million in donations and legacies, runs programs in crisis care, aged care, family welfare, youth services and employment training (the last having a claimed success rate of 96 per cent). In Christchurch, charities are involved in assisting 'the elderly, homeless, solo parents, street kids, the sexually and physically abused, the physically and mentally disabled, families who seek counselling, pregnant women, people with long-term disabling medical problems, people requir-

ing financial assistance, emergency relief, gays, alcoholics, the poor, those lacking sex education, new mothers, and many more' (Woodfield, 1989:148-9).

How well do the private charities compare with the welfare state in meeting the guidelines typical of a good welfare system?

The Nature of Charity: Entitlements vs Gifts

Rules vs discretion. Entitlement programs for welfare are structured so that benefits are granted solely on the basis of personal circumstances. Applicants do not have to give the reasons for their circumstances, nor are they required to explain how they plan to change them in the future. They don't even have to show a willingness to change. In the Supporting Parents Benefit program, for example, the requirements for eligibility essentially amount to: (i) low income, (ii) very few assets, (iii) dependent children, and (iv) no adult relative in the household. Anyone satisfying these requirements is entitled to benefits. And the word entitlement means 'right' — benefits cannot be withdrawn simply because the recipient refuses to modify behaviour.

The philosophy of the private sector is quite different. Because of the emphasis on a behavioural approach to the problem of poverty, our best private charities do not view the giving of assistance as a 'duty' or the receipt of assistance as a 'right'. Instead, charitable assistance is viewed as a tool that can be used intelligently, not only to provide relief but to change behaviour. With many private charities, for example, the level of assistance varies considerably from individual to individual. Private agencies usually reserve the right to reduce the level of assistance, or withdraw assistance altogether if recipients do not show behavioural changes.

Many private charities require that a caseworker and a recipient of aid establish a plan designed to move the recipient to a condition of self-sufficiency.

- Volunteers doing home visits for the Dallas Salvation Army, as for Australia's St Vincent de Paul Society, are not specifically bound to grant a minimum or a maximum level of assistance. Aid varies according to the caseworker's evaluation of the recipient's condition and record of development.

Whose preferences count? Whether receipt of welfare is viewed as a 'right' or a 'privilege' is at one level an ethical and philosophical question. At another level, the question has profound implications for how our society is going to function. Under entitlement programs, so long as those programs remain in force, recipients and potential recipients of aid have full freedom to exercise their preferences at will. In many cases, they can choose poverty over non-poverty. Once this choice is made, the rest of society is presented with a welfare bill which it is obligated to pay. Thus, in a sense, under entitlement programs the preferences of the recipients determine the behaviour (in terms of the tax burden) of those who pay the bills.

The philosophy of the private sector is quite different. In general, private agencies view the preferences of those who pay the bills as the standard, and the recipients are expected to change their behaviour to satisfy the givers. In other words, under the private sector approach, welfare recipients must adjust their behaviour to the preferences of the rest of society, not the other way around.

- At the Scope Foundation's Halfway House, a transitional home for rehabilitating drug addicts and alcoholics in inner Sydney, support is contingent upon positive evidence of individual improvement.

Hands-on management at work. If we accept the view that individuals should take responsibility for supporting themselves and their families, and that welfare assistance should be administered in a way that encourages rather than discourages this behavioural ideal, then it follows that the approach of our best private charities is far superior to the approach of entitlement programs. Because individuals differ, and because individual circumstances differ, it is **only** through a program of 'hands-on-management' of charitable giving that we can give relief without at the same time encouraging anti-social behaviour.

'Hands-on-management' means tailoring aid to meet individual needs and individual circumstances.

- A good example in the US is the St Louis Salvation Army's transitional housing project. This is administered in four stages, in which the family is provided with, successively, temporary shelter, psychological support, assistance in finding a permanent dwelling, and help in adjusting to the new environment.

- A similar scheme in Australia is the Sydney City Mission's 'Project Triple Care', a three-stage program designed to assist homeless and destitute young people. The program provides, successively, shelter and health care; a secure environment in supervised group homes with counselling, training in basic skills, and help in finding employment or resuming education; and finally, independent, unsupervised group accommodation.
- The Scope Foundation came into existence precisely because of the frustration its founders were experiencing with government-run halfway houses for drug addicts and alcoholics. A spokesman criticised the rigidity of government run institutions that lack independence and flexibility in their approach to the problems of addicts on the way back. He said that the Scope Halfway House allows its residents a degree of autonomy not available to people in government institutions, though this is balanced with an emphasis on the social responsibilities of the aid recipient. Everything is backed up by counselling tailored to the needs of the individual rather than of 'drug addicts' or 'alcoholics'.

This form of support, counselling and follow-up services is virtually unheard of in government welfare programs, whose administrators have the job of giving away money, not assisting people with personal or family problems. Government welfare workers are bound by rigid rules and regulations, by precise definitions of problems and the type of help that can be given, and of the degree to which they can become involved in a case. Government welfare bureaucracies cannot cope with human diversity. Indeed, if someone walks into a Department of Social Security office, he receives financial assistance, not the support, counselling and follow-up services given by private charities. If the person requests counselling, he might be referred to a government employed social worker who is also bound by rules and regulations determined in Canberra. Increasingly, those who request counselling or further help are referred to private welfare organisations better equipped and more flexible to deliver the precise service the person needs. The Multiple Sclerosis (MS) Society of New South Wales pointed out that government and community social workers refer MS sufferers to the Society even when their problems are unrelated to the disease. Government agencies are just unable to cope with the variety

of problems that an individual can face and thus they turn to the more flexible private welfare organisations.

Getting Aid to Those Who Need it Most

A basic principle of the liberal-democratic philosophy of government is that we turn to government only as a last resort. In other words, it is generally assumed that the role of government is to do those socially desirable things that the private sector either will not or cannot do.

Ironically, in the field of social welfare this philosophy has been turned on its head. In the early years of American President Lyndon B. Johnson's 'War on Poverty', it was thought that federal welfare programs were designed to provide a social safety net — to provide services which the private sector, for one reason or another, had failed to provide. This was similarly the view in Western Europe, Australia and New Zealand, where social security programs were introduced to catch those neglected by the private sector. Yet it is becoming obvious that just the opposite has become the case: increasingly it is the private sector that is providing the social safety net by reaching the people government fails to reach and by providing the essential services that government welfare programs fail to provide.

If a humane welfare system means anything at all, it means getting aid first to people who need it most. One of the most astonishing and little-known facts about the welfare state is what a miserable job it does in pursuing this goal. Consider that in America:

- Only 41 per cent of all poverty families receive food stamps. Yet 28 per cent of food-stamp families have incomes above the poverty level.
- Only 23 per cent of all poverty families live in public housing or receive subsidised housing benefits. Yet almost half of the families receiving housing benefits are not poor.
- Only 40 per cent of all poverty families are covered by Medicaid. Yet 40 per cent of all Medicaid beneficiaries are not poor.
- **Amazingly, 41 per cent of all poor families receive no means-tested benefit of any kind from government.** Yet more than half of all families who do receive at least

one means-tested benefit are not poor (Census Bureau, 1985:1-5 and 103).

Several studies of low-income families confirm the fact that when people get in trouble, they turn to the private sector first.

- A study in Detroit found that 80 per cent of low-income people, when faced with a crisis, turned to individuals and agencies within their own neighbourhood, rather than to government agencies for help (Woodson, 1982a).
- A spokesman for the Sydney City Mission noted that the recent closure of many state welfare offices seemed to be leading to the 'privatisation' of welfare as the voluntary agencies moved in to fill the gaps.

Providing Relief Without Encouraging Dependency

A major issue in the welfare policy debate is whether the recipient of aid should have to 'do anything' in order to qualify for continued receipt of welfare benefits. The idea is occasionally mooted in Australia with respect to unemployment benefits, but nothing has been done to make the recipients of government aid contribute some of their time to community projects (though training schemes of varying degrees of efficiency have been devised).

As noted above, the attitude of America's and Australia's most prominent private charities is quite the opposite. These agencies see independence and self-sufficiency on the part of their 'clients' as one of their primary goals. Often this goal is accomplished either by encouraging or requiring the recipients of aid to contribute their labour to the agency itself.

- At Merillac House, an emergency food and assistance organisation in Chicago, unemployed adults with no dependents must contribute time and services toward program operations after receiving assistance.
- At the Wayside Chapel in Sydney's Kings Cross area, many youths contribute some of their time to helping out in its Crisis Centre or its Outreach program. This can provide valuable job training or at least give the aid recipients a

sense of purpose. However, the Wayside Chapel does not make this a condition for the receipt of aid. As far as is known, no Australian non-government welfare organisation actually requires its beneficiaries to work.

- In Christchurch, nearly all private welfare organisations follow procedures designed to encourage independence among their clients. Such procedures include counselling, education in problem-solving and in vocational and social skills, rehabilitation, early intervention in medical diagnosis and treatment, and self-management training (Woodfield, 1989:149).

Encouraging the Stability of the Family Unit

The attitude toward family on the part of private sector charities usually stands in stark contrast to the incentives built into federal programs.

- Supporting Parents Benefit, for example, is not available to an intact family, regardless of their economic situation. However, benefits are so high that they encourage marital dissolution before families can qualify (Swan and Bernstam, 1987).
- By contrast, private charities, especially those with a religious base, encourage deserted and battered women to seek reconciliations with their husbands or, failing that, to seek work in order to support themselves and their children. In some cases the efforts of the women to find work or repair their marriage is a condition of future aid. The emphasis is always on family life and self-reliance above dependence.
- The Sydney City Mission assists families threatened with homelessness by providing food or other kinds of help that enable them to meet their housing bills and stay together.

Temporary vs Long-Term Relief

A prevalent philosophy in the private sector is that most people are fully capable of taking responsibility for their lives in the long-term,

but that emergencies and crises occur in which help is both necessary and desirable. As a consequence, private sector agencies make it surprisingly easy for recipients to obtain emergency relief. Cynically we can say there really are such things as free lunches; that means that it is almost impossible for one to starve in countries like Australia and the United States. This is not solely a circumstance of the welfare state; it is largely due also to the efforts of private charities.

The almost universal characteristic of the private sector is: It's easy to get on welfare, but hard to stay there.

- At many of its hostels for the homeless, the Sydney City Mission imposes a residency limit of three months. Although this rule is not totally inflexible, the organisation recognises that residents must be given some incentive to return to self-sufficiency.

While it is similarly easy to get on public welfare it is also easy to remain there for long periods. The main problem with the welfare state is that it is creating a permanent underclass trapped in dependency. Research shows that:

- In the US, of all women who receive welfare in any given year, about 60 per cent will receive welfare the next year.
- Among women receiving welfare for two consecutive years, about 70 per cent receive it a third year.
- Among women receiving welfare for four consecutive years, about 80 per cent receive it a fifth year.
- At any one time, about one-half of the mothers receiving AFDC will continue to receive or will have received assistance for a period of eight years or more (Duncan, 1984:75, 78).
- In New Zealand, the likelihood of a recipient of Domestic Purposes Benefit (DPB) continuing to be on welfare in subsequent years increases rapidly after the first year.
- Recipients of DPB who have been on welfare for four years have an 80 per cent chance of receiving it for a fifth (Woodfield, 1989:138).

Minimising the Cost of Giving

There is considerable evidence that private sector charity makes far more efficient use of resources than do public welfare programs. Consider some of the ways private charities hold down costs:

Requiring evidence of need. Although temporary relief in the form of food or shelter is fairly easy to obtain from private agencies, long-term assistance or assistance in the form of cash is far more difficult.

- In most instances, need is determined on a case-by-case basis. For example, members of the St Vincent de Paul Society visit the home of each family/individual requesting assistance. The amount of assistance is determined during each visit by the members and the family/individual's progress is monitored.
- When a family needs persistent help from the Society in meeting its utilities bills, it is referred to some form of budget counselling.

Checking other sources of support. Even when there is evidence of need, good private charities often seek to determine whether the potential recipient has access to other, untapped sources of assistance.

- Social workers with the MS Society of New South Wales make sure the individual applies for all other public and private aid for which he or she might be eligible before continued assistance is provided. The Society also does its utmost to avoid duplicating the services already provided by government and to which MS sufferers would be entitled.
- Prior to the advent of the full-blown welfare state, the St Vincent de Paul Society in Australia used to ask recipients of aid whether their family members might be able to help them out. That this practice is no longer followed is further evidence of what David Band (1989:32) calls the 'erosion of feelings of mutuality and obligation between citizens' that the welfare state has induced.

Private sector agencies appear to be especially adept at avoiding

unnecessary spending that does not benefit the truly needy.

- A spokesman for the Sydney City Mission stated that the voluntary organisations exchanged information to help them identify individuals who were systematically abusing their services.

Consider the amount of waste in public sector charities in the US:

- In the US in 1981, improper payments in the AFDC, food stamp and Medicaid programs reached \$US3.5 billion.
- In the food stamp program alone, about one in every ten dollars was spent on overpayments or payments to ineligible families.
- In 1980, improper spending in the US program to provide school lunches for poor children was as high as \$500 million dollars (Clarkson, 1984).

Using volunteer labour. Private charities also keep program costs down by utilising volunteer labour.

- A study of 592 voluntary charities in Australia found that 85 per cent of them utilise volunteer labour.
- About 200 of these organisations had between five and 20 volunteers. Organisations falling into this category had median annual incomes of just under \$10 000.
- Organisations with over 200 volunteers, including one with 53 198 volunteers, had an annual median income of over \$1 million (Hardwick & Graycar, 1982:9-12).

Using donated goods-in-kind. Another way in which private charities hold down the costs of their operations is by using donated goods-in-kind.

- The St Vincent de Paul Society distributes about \$8.73 million worth of food per annum in Australia, of which 59 per cent comes from private and corporate donations.

- Apart from regular donations, the Society relies on occasional food drives. Advertising for the drives is minimal — occasionally television or radio stations help out by organising telethons or commercials at no cost to the charities concerned. The Society estimates that in local area drives for commodities such as food, clothing, blankets, furniture, toys, etc. the benefits outweigh the costs by a ratio of at least 5:1. In a national drive that involves low cost television and radio advertising as Community Service Broadcasts, they estimate a minimum benefit to cost ratio of 15:1.

Other evidence of efficiency. Private sector charitable activities are diverse and widespread throughout Australia and internationally. Our knowledge of these activities is skimpy. However, research in the US is providing mounting evidence that in area after area, the private sector out-performs government:

- Private foster care agencies have shown they can out-perform government agencies in the US (Woodson, 1982b).
- Private agencies engaged in job training for teenagers (Sullivan, 1982:215-57) and for the mentally and physically handicapped (McKinnon et al., 1982) have shown they can out-perform government agencies.
- Public housing placed in the hands of tenants costs less and is of higher quality than when owned and maintained by governments (National Center for Neighbourhood Enterprise, 1984).
- Private sector crime prevention programs (McKinnon et al., 1982), alcohol and drug abuse programs and neighbourhood preservation programs (Haines et al., 1982) also have proved to be superior to public sector programs.

Research in Australia in New Zealand has produced similar results:

- Bridging the Gap is a private organisation that helps unemployed youths find permanent jobs. On average, Bridging the Gap spends around \$A48 per job placement. But the Commonwealth Employment Service, with an annual

budget in excess of \$600 million, costs about \$900 per job placement. The first five year budget for Bridging the Gap was only \$80 000. Whereas some CES offices are run by a staff of twelve, Bridging the Gap is limited to two or three people per office (Baker, 1986).

- The available data suggest that privately-financed child care centres are somewhat cheaper than government-financed ones. The average weekly fee charged by private centres in November 1988 was \$77.58 in New South Wales and \$74.87 in Victoria. Government-sponsored centres, in contrast, charged between \$90 and \$100 in late 1989 (Australian Bureau of Statistics, 1989; Department of Community Services and Health, 1989).
- The New Zealand Society for the Intellectually Handicapped (IHC), the country's largest private sector voluntary welfare organisation, has an annual budget of \$NZ80 million and a staff of over 2000. It provides a wide range of services to the intellectually handicapped, including pre-school centres, workshop facilities, rural training centres and residential services. All are run on a user-pays basis but with a significant government subsidy. Two recent reviews of the Society's services by the Controller and Auditor-General found that they gave better value for money than similar services provided by other organisations such as hospital boards (Audit Office, 1988:43-4). Just before the 1987 New Zealand general election, the IHC offered to give up its direct government subsidies if the hospital boards and other agencies did the same and if the funds were used to increase the benefits paid to handicapped people to enable them in turn to contract back to service provision agencies for services. Neither the hospital boards nor the government supported the idea, even though it would have enhanced freedom of choice and facilitated a greater diversity of services.

Chapter 6

The Threat to Private Charity

Despite the fact that the best private charities out-perform government welfare programs by a number of criteria, both the magnitude of private charitable giving and the vitality and diversity of private sector agencies are severely threatened by government policies. The threat comes from two main directions. First, government subsidies to private welfare organisations threaten to allow the system that doesn't work to exercise increasing domination and control over programs that do work. Second, increased funding of government welfare programs has led to reduced private giving in the past and threatens to continue to do so in the future.

The Threat from Government Subsidies

It is not generally realised that to an astonishing degree, private, non-profit organisations in the US are turning to government — especially the federal government — as a source of funds.

- About 38 per cent of the revenues of all non-profit institutions (excluding hospitals and higher education institutions) now comes from the government.
- Among private social welfare agencies, 54 per cent of all revenues come from government (Salamon et al., 1986).

A similar situation exists in Australia and New Zealand:

- According to Milligan et al. (1984), Australian non-government welfare organisations derive 37 per cent of their income from government. For example, all shelters for the homeless and refuges for women receive considerable government funding.

- The St Vincent de Paul Society reports that their shelters for the homeless are 63.3 per cent government-funded while their youth refuges receive 77.7 per cent of funding from the government. All 14 of their women's refuges are wholly government funded.
- The Sydney City Mission runs 31 employment training programs. Sixteen of these are funded largely by the federal government, the remainder by the New South Wales State government.
- According to its Annual Report for 1987-88, the New South Wales Department of Family and Community Services alone paid out almost \$190 million in grants and subsidies during that period.
- In Christchurch, the vast majority of private welfare organisations receive some government funding, up to 90 per cent of total funds in some cases, the median figure being 30 per cent (Woodfield, 1989:149).

The danger in this trend is that the entity that has failed so miserably in administering its own welfare programs will come to dominate and control the agencies that administer programs that work. For example, it is not uncommon to find private agencies that are heavily dependent on government funds providing services almost exclusively to unmarried mothers. What this means in practice is that the private organisations have accepted the government's definition and conception of who is in need and who should be helped.

There is evidence that administrators of private, non-profit organisations are increasingly aware of the dangers of becoming financially dependent on government.

- In a recent poll of private sector agencies in the Twin Cities, Minnesota area, 46 per cent of administrators said the agencies have become too dependent on the government for funds.
- Eighteen per cent said that receiving federal funds caused a significant distortion in the activities and objectives of their organisations (Lukermann et al., 1985:37).

- An officer of the Scope Foundation in Sydney said the organisation had been founded to escape reliance on government funding which effected the independence and flexibility of most halfway houses for drug and alcohol addicts.
- A spokesman for the Sydney City Mission favoured a 'balance' between government and voluntary welfare, estimating that the private sector agencies would be in danger of losing their independence if more than half their income came from government.

Another danger in government subsidies to private sector organisations is the political aspect of this giving. Since government by nature is political, it is not surprising that dollars often are allocated to achieve political goals, rather than broad-based social goals. In the US, James Bennett and Thomas DiLorenzo documented how billions of dollars in federal grants (purportedly made to fight poverty, improve the community, etc.) were, in fact, being used to support blatantly political activities (Bennett & DiLorenzo, 1985). In Australia, studies have claimed that public money given away to ethnic welfare organisations under the policy of 'multiculturalism' often has more to do with pork-barrelling than with the strict welfare needs of its recipients (Sestito, 1982; Rimmer, 1988).

The Threat of Crowding Out Private Giving

There is growing evidence that private sector willingness to contribute to social welfare activities is conditioned by what the federal government is doing, or at least by what it is perceived to be doing by the private sector.

- Since 1955, charitable contributions by individuals in the US have ranged between 2.5 and 3.0 per cent of disposable income.
- Yet the share of income contributed to social welfare activities consistently declined between 1955 and 1980.
- In 1980, the percentage of their income which individuals contributed to social welfare activities was less than half of what it was in 1955 (Abrams & Schmitz, 1985:564).

A similar trend exists for all sources of private giving in the US (including corporations and foundations):

- In 1955, 22 per cent of all private charitable contributions went to social welfare activities.
- By 1983, that figure had dropped to 11 per cent (AAFC Inc., 1985:44).

This decline in private contributions to social welfare agencies appears to be in response to a marked increase in government welfare spending. In other words, the more the government became involved in anti-poverty activities, the more the private sector retrenched. As the welfare state has expanded, the public has responded by giving a larger share of its charitable contributions to other activities: schools, hospitals, art and cultural activities, and various other civic and public programs.

The expanding welfare state is literally crowding the private sector out of the market. According to one study:

- A 10 per cent increase in social welfare spending by government leads to a reduction of \$27, on the average, in private contributions by tax-payers who itemise on their tax returns.
- Overall, each additional dollar of social welfare spending by government leads to a 30 cent reduction in private contributions (Abrams & Schmitz, 1985:566).

Further evidence that the welfare state crowds out private giving is suggested by figures showing an **increase** in such giving following tax cuts during the 1980s:

- In 1980, total giving in the US amounted to \$49 billion. By 1984, that figure had reached \$75 billion (Keller, 1986:77).
- Tax relief introduced by Britain's Thatcher government has been followed by increases in donations to the nation's top 200 charities from just under £500 million ten years ago to around £1.3 billion in the 1987-88 financial year (*The Economist*, 4-10 June 1988, pp. 53-4).

We can conclude, then, that cuts in welfare spending and further cuts in taxation are likely to lead to increases in voluntary donations to charitable organisations. However, for reasons to be set out at the beginning of Chapter 7, it is unlikely that voluntary donations could ever match the taxpayers' dollars that governments devote to welfare spending. But we go on to show that this does not mean that the voluntary charities must for ever play a subsidiary role to the state system.

Chapter 7

Creating a Market for the 'Business' of Charity

Why should government be involved in the business of charity in the first place? The traditional economic argument is that spending money for the relief of poverty has social effects that extend beyond the interest of the individual giver. Thus, giving to charity is different in principle from the act of buying a loaf of bread. The purchaser of the loaf of bread enjoys the full benefits of his purchase when he consumes the product. Yet a gift to charity benefits not only the giver, but also everyone else in society who has an interest in (and gets personal satisfaction from) the charitable objective. As a result, individuals, given complete freedom of choice, will give too little to charity. They will do so because when making choices about how much to give they will consider only their individual, private benefit from the gift, and ignore the social benefits created for others. Put another way, given freedom of choice, people will try to become free riders on the charitable gifts of others and fail to contribute their fair shares.

These are the theoretical arguments behind government coercion: for requiring people to give a certain portion of their incomes for the relief of poverty. These are arguments that, in one form or another, most people accept.

However, it does not follow from these arguments that the government should nationalise the charity industry. Government requires licensed drivers to carry automobile liability insurance, but few would argue that it is necessary or desirable for the government to nationalise the automobile liability insurance industry.

As it happens, however, government has assumed the role of a public monopoly in the welfare industry. It has put itself in the position of being the exclusive recipient of charitable contributions taken by coercion (through the tax system) and of having sole discretion over how these dollars are spent.

This is unfortunate, because the most serious defects of the system of public charity all stem from the fact that it has been monopolised by government. In the first place, under the government's monopoly the dollars almost never go where the givers would have preferred them to go. How much money would be donated to, say, the Supporting Parents Benefit program? Furthermore, when spending decisions are made through the political process, it is inevitable that powerfully organised special interests have considerable influence over how the dollars are spent. Thus, it is no accident that so much government welfare spending ultimately ends up in the pockets of people who are distinctly not poor. Medicare dollars go to doctors and hospitals; housing subsidies go to landlords; and legal aid dollars go to lawyers.

A striking example of the misallocation of state welfare benefits in Australia has been documented by Robert Goodin and Julian Le Grand (1987:108-26). These authors demonstrate that three welfare programs originally targeted on the poor have been 'invaded' by the non-poor. These are old age pensions, whose numbers of recipients have increased from 32 per cent of the population of pensionable age in 1911 to 76 per cent in 1981; invalid pensioners, who showed the far more dramatic increase from 9 per cent in 1911 to 88 per cent in 1981; and the misnamed widow's pension which rose 11 percentage points from 1954 to 1981. They argue that these rises are due to behavioural responses to incentives. This was supported by a 1980 report by the Social Welfare Policy Secretariat in which it was stated that 'the tendency for people to circumvent the income test by rearranging their assets to ensure that any income produced has minimal effects on pension eligibility may mean that a growing percentage of income support expenditure is going to persons in relatively comfortable financial circumstances' (Commonwealth of Australia, 1980:39).

Finally, precisely because it faces no competition in the marketplace, the public charity monopoly can continue to spend money in wasteful and inefficient ways, to fail miserably in achieving its objectives, and to misbehave in other ways without fear of losing customers to a competitor.

To remedy these defects, public sector charity must be denationalised.

Proposal A: Competition and Choice

The basic idea of privatising public charity is a simple one. Government would continue to force people to give their 'fair shares' through

the vehicle of the income tax system. However, individual taxpayers, rather than politicians, would decide how their share of the social security bill would be spent. In other words, taxpayers would be free to allocate their social security tax dollars to any qualified private charity. In this way private charities would compete on an equal footing with government welfare programs for the portion of the federal budget that is allocated to poverty programs. Furthermore, there would be free and open entry into the market: Anyone could start a private charity and be eligible for tax dollar 'contributions', provided the charity had a social welfare purpose and satisfied certain other minimal requirements.

Proposal A involves partial privatisation of public charity. Under the proposal, individuals would be able to allocate up to 10 per cent of their personal federal income taxes to qualified private charities. These gifts could be made directly to the private charities, and then deducted in full from their income tax bills. Alternatively, individuals would have the opportunity to instruct the Treasury (on their income tax returns) to pay up to 10 per cent of their taxes to specified private charitable organisations. Any amounts allocated to private charities under this proposal would have to be deducted from the federal government's welfare budget. In other words, for each tax dollar allocated to private sector charity, public sector charity would be reduced by a dollar.

In the financial year 1987-88 the total amount of revenue raised from taxes levied on individual incomes in Australia came to \$41.8 billion. Ten per cent of this amount is approximately \$4.18 billion or between 18 and 19 per cent of the federal government's social security spending for that year of \$22.6 billion. Had proposal A been in effect in 1987-88, Australian taxpayers would have had the opportunity to re-allocate nearly one fifth of the government's social security budget away from government programs to private sector programs of their choosing. If the public took full advantage of this opportunity, then parliament would be required to cut an equivalent amount out of public sector programs. How the cuts would be made could be left to the parliament.

Proposal B: Competition and More Choice

Proposal B is a natural extension of Proposal A. It broadens the choice of the individual taxpayers by allowing individuals to allocate their entire share of the social welfare budget among all public and private sector organisations and programs involved in the 'business' of wel-

fare. Every social welfare agency — public and private — would compete against every other agency for social security tax dollars. In principle, Proposal B allows the public to make all of the decisions on how the social security budget is to be allocated, although individuals would be free to forgo this responsibility by indicating on their tax returns that they would like to relinquish to the federal parliament the right to decide how their welfare tax dollars are spent.

Taking social welfare spending for 1987-88 again, Proposal B would give individuals direct control over how somewhat more than half of their income tax dollars would be spent.

Proposal C: Competition and More Choice Still

Proposals A and B are confined to a range of activities which fall under the designation of 'social security'. They specifically exclude educational, cultural, medical and other human service activities which are not directly related to the problems of poverty. They also exclude research activities. Yet, because these activities also have a public nature to them, it would seem desirable to expand the range of taxpayer choice to include them as well.

Proposal C would do just that. Under the proposal, parliament would define a 'human services budget', which would include, in addition to social security programs, spending on education, medical research, arts and cultural programs. (Proposal C would exclude spending on religious and political activities, as would Proposals A and B.) Under Proposal C, all public and private sector agencies with a human services purpose would compete against one another for taxpayer dollars, and individual taxpayers would have the option of allocating their individual shares of the human services budget. Those shares would amount to well over half the total revenue from individual income tax payments.

Advantages

The three proposals made here have obvious advantages that should lead to a more humane and desirable welfare system. The proposals would replace monopoly with competition and would allow freedom of entry into the marketplace. Charitable organisations would be able to attract contributions only by making a persuasive case to the public. No longer would inefficient, wasteful federal programs be able to count on uncontested access to taxpayer dollars. No longer would special interest groups be able to count on political largesse as

a result of their special influence. Most important, the people giving the money would have direct control over how their tax dollar contributions are spent.

Chapter 8

Twenty-One Questions and Answers About the Proposals

1. How would the tax dollar contributions actually get to the private charities to whom they are designated?

In most cases, the private charities would receive funds exactly as they do now, i.e. in the form of cheques from givers. Under our proposals, the donor would simply indicate on his income tax return the names of the organisations to whom he has allocated his tax dollar contributions. However, taxpayers also would have the option of having the Treasury make the contribution by indicating on their individual tax returns which organisations they wish to give to and in what amounts.

2. What if an individual wishes to make charitable contributions in excess of the limits in your proposal?

Individuals would make two types of decisions with respect to private charities: (i) whether to allocate a portion of their welfare tax dollars to private charitable organisations, and (ii) whether to contribute additional personal dollars to these organisations. The second category of giving — voluntary, personal gifts — would continue to qualify for tax deductions in exactly the same way as they currently are treated under the tax code.

3. How would a private organisation qualify to be eligible for tax dollar contributions?

The procedure would be identical to the one already in place for non-profit organisations that wish to be able to receive tax deductible contributions. Under Proposals A and B, the organisation's activities would have to be confined to social welfare services. Under Proposal C, educational and cultural activities also would be included.

4. Wouldn't a large bureaucracy be needed to monitor the private charities receiving tax dollar contributions?

Not necessarily. A spokesman for the Australian Taxation Office claimed that although non-profit and charitable organisations are not subjected to regular reviews, tax officers frequently make enquiries into them on the basis of casual individual claims of abuse. These sometimes result in the organisations concerned modifying their conduct. If our proposals led to a large increase in the number of such organisations, the Taxation Office could find itself under pressure to devote more resources to monitoring them. But additional, probably more effective, measures could be adopted to deter abuse.

5. What further safeguards would be needed to prevent fraud, abuse and cheating?

A number of safeguards could be established. Here are four of the most important:

- Existing regulations governing non-profit organisations would continue to apply. These include prohibitions against misusing a charitable organisation for personal financial gain.
- An even stricter set of rules would be applied to organisations that receive tax dollar contributions. For example, no one would be allowed to allocate his tax dollars to an organisation from which he or a member of his family receives a salary or with whom he has substantial business relations. Nor could people make 'deals' with each other ('I'll give to your charity if you give to mine') in order to circumvent the law. Enforcing such rules is no more difficult or complicated than the kinds of regulations that the Taxation Office routinely enforces every day.
- The most important check on an organisation's activities would be the self-interested inquiries of its competitors who would be free to engage in comparative advertising in the competition for tax dollar contributions.
- Special freedom-of-information rules would apply to organisations receiving the contributions. These rules would make it easy for members of the public and competing organisations

to gain access to financial and other records. Of course, regulations for the protection of the rights of charitable organisations and their benefactors would have to be included so that the freedom-of-information rules are not abused.

6. Would private charities receiving contributions be free to engage in political activities?

No. The same prohibitions that now apply to non-profit organisations would apply to organisations that receive tax dollar contributions. Public policy research institutes, such as the Centre for Independent Studies and the Institute of Public Affairs, would be excluded under Proposals A and B, but included under Proposal C.

7. What about churches and other religious organisations?

No tax dollar contributions could be given to organisations whose primary purpose is to advance a religion. However, churches and other religious organisations could form subsidiary organisations with social welfare functions (such as soup kitchens) and tax dollar contributions could be given to these subsidiary organisations. Organisations which serve a primarily social welfare function, but which have a religious dimension to their program (such as the Salvation Army), would be permitted to receive tax dollar contributions. Strictly religious organisations would have to survive on private donations in the way they have traditionally survived.

8. If people choose to allocate a certain portion of their taxes to private charities, which federal programs would lose money?

Under Proposal A, tax dollars allocated to private charities would be made up by cuts in the budgets of means-tested federal welfare programs. Parliament would decide how the cuts are to be made. Under Proposals B and C, individual taxpayers would have the option of allocating their tax dollars among all private and public programs covered by the proposals. Parliament would be free to allocate funds only to the extent that individual taxpayers choose to voluntarily relinquish this choice to parliament.

- 9. Isn't there already a problem of private charities spending too much money on fund-raising? Wouldn't this problem be made worse by the kind of aggressive competition you seem to want and approve of?**

Maybe. Advertising does more than simply persuade. The best kind of advertising also informs. Right now there is too little information about public and private charities and what they do. Furthermore, some of the best private charities have discovered that it is a real selling point to disclose how **little** they spend on fund-raising. If the value of volunteer labour is included, the organisations probably spend less than a cent on fund-raising for every dollar of spending. In our opinion, that's a good argument for making donations to them.

- 10. But if the private charities greatly expanded their activities, as your proposals envisage, wouldn't they have to employ many more full-time staff to administer the tax dollars allocated to them? And wouldn't this tend to make them as bureaucratic and wasteful as the public sector welfare system?**

Private charities would certainly expand their activities, and would probably have to employ more full-time staff. But, unlike the public sector organisations, they would still be competing for the taxpayer's welfare dollar, and this would give them a strong incentive to control costs and ensure that a large share of every dollar they received reached its intended destination. Some private charities are very large already, yet, unlike any government bureaucracy, they still employ voluntary labour.

- 11. Wouldn't most of the contributions go to agencies that employed slick advertising campaigns rather than to the charities that do the best job?**

Not necessarily. Our experience with the private marketplace teaches us that people can be fooled some of the time, but as many a bankrupt businessman knows, they cannot be persistently fooled.

12. Given the complexity of the welfare-poverty industry, how can an average citizen make intelligent choices about where his tax dollar contributions should be spent?

One option is to rely on the advice of 'experts'. Right now, the taxpayer is coerced into taking the advice of one particular group of experts, namely, the members of the Commonwealth parliament in Canberra. Our proposal would leave that option open: individuals could continue to allow politicians to make decisions for them. But they also would have the option of getting advice from other 'experts', whose opinions are not distorted by the desire to get re-elected.

13. Since each individual taxpayer would be making decisions without knowing what decisions are being made by everyone else, how do we know that we won't end up with some bizarre result that none of us really would approve of?

Let's take an example. Suppose everyone in the nation decides to donate all of his tax dollar contributions to the Salvation Army, on the assumption that there would be many other people who would give to other worthy causes, such as suicide prevention centres and homes for battered wives. When the results are in, we learn that the Salvation Army is way over-funded and many other worthy causes have no money at all. Seeing this result, people wish they could go back and change their minds, but they can't.

Could something like this actually happen? We think it's extremely unlikely for several reasons. In the first place, people make contributions to private charities every day without consulting their neighbours on their giving decisions. The results of such private giving are far from bizarre. Second, all of the giving decisions would not be made on 1 July. Giving decisions would be made throughout the calendar year (in terms of cash gifts and pledges) and people would have access to a great deal of information about where the money is going by 1 July.

In the third place, should there be some bizarre result, such as described above, there are private sector remedies to deal with it. For example, private pressure could be put on the over-funded agencies. It would be in the Salvation Army's self-interest to accede to the pressure in order to maintain good relations with the giving public.

Finally, the problem (if it is a problem) is only a short-term one. People have memories. In making giving decisions this year, they

would remember what everyone else did last year, and adjust their behaviour in the light of that knowledge. Over time, we would move to a fairly stable equilibrium pattern of giving in which people would be able to make reasonably well-informed decisions about where charitable contributions are going and how they want to allocate their own funds, given the overall pattern.

14. What if no one allocated their tax dollar contributions to federal welfare programs?

Under Proposal A, parliament would still have approximately four-fifths of the federal poverty budget to allocate. Under Proposal B, federal welfare programs would have no money and would have to be abolished. Clearly there would be some adjustment problems in eliminating programs of such size and magnitude. That is why we propose phasing in the privatisation of public charity over time.

15. Aren't you substituting 'one-dollar-one-vote' for 'one-person-one-vote', and won't this give wealthy people an unfair and disproportionate influence over where the charitable dollars are spent?

The criticism would be apt if we proposed to allow wealthy people to make decisions about how to spend other people's money. However, we are not proposing that. We are proposing to allow people the opportunity to allocate their **own** money — money which they have personally earned — in the charitable marketplace.

16. Under your proposals, wouldn't the total amount of public and private charitable giving go down?

Not necessarily. It is true that we anticipate that a great deal of wasteful, inefficient and counterproductive spending would be eliminated. Considered in isolation, this change would reduce the perceived need for charitable giving, which in turn might cause a reduction in the amount of 'voluntary' giving and create political pressure to lower the amount of 'required' giving. However, we also are proposing a system under which people would have complete control over their own giving decisions and so would have an active, personal interest in how their dollars are spent.

As a result of the increased personal interest and control, it may be that the public would be willing to accept higher tax rates for the

purpose of funding charitable activities. Personal voluntary giving may increase as well.

17. Technical question: How do we know that the tax dollar contributions would actually get distributed to the 'right' charitable activities?

We don't. Economists have a theoretical way of describing 'ideal' spending decisions: The last dollar spent on program A should create just as much social benefit as the last dollar spent on program B. One theoretical criticism of the current system is that it has no mechanism for reaching this ideal. Indeed, the current system is inherently destined not to reach the ideal. That is because in the political arena, decisions are made on the basis of political costs and political benefits (How many votes lost? How many votes gained?) and not on the basis of economic costs and economic benefits.

The proposal we are making also has a theoretical defect, however. When people make individual decisions on how tax dollars are to be spent, they would tend to allocate their tax dollar contributions in the following way: The last dollar spent on program A would provide just as much personal ('psychic') benefit as the last dollar spent on program B. Clearly, the **personal** psychic benefits people get from various spending decisions cannot be equated with **social** benefits.

What this means as a practical matter is that the system we envisage would not be perfect, even though we expect major improvements over the current one.

18. If you admit that the system you propose is not perfect, how do we know some important social goals would not be left unmet?

We don't. Consider the following problem. Suppose that everyone in Sydney, Wollongong and Newcastle has some concern about poverty among inhabitants on the North coast of New South Wales. For each individual, this concern is so small that he allocates all of his tax dollar contributions to charitable activities in the city where he lives. As a result, no money flows from the large cities to help the problems of poverty on the North coast. However, if we add up all of the 'small concerns' of the millions of people that live in the large urban areas, they may total up to a very big social concern over a problem that is going unsolved.

No one knows how serious such a problem might turn out to be. By gradually moving to the system we envisage, we would have the opportunity to observe whether such problems warrant modifications in the proposal.

19. If individual choice is superior to choices made by politicians, why not extend your proposal to the extreme and allow each taxpayer to allocate all of his tax dollars among all programs of national importance, including defence and foreign aid?

This may turn out to be a desirable thing to do. However, that there are potential problems with such a proposal because national programs have different degrees of 'publicness' to them. As with the problem of Northern New South Wales poverty, individuals might tend to allocate all of their tax dollars to projects in their own communities, with nothing left over for truly national problems, such as defence and foreign policy.

Again, we cannot know what choices people would actually make until we begin to experiment.

20. What about State and local government welfare programs?

Our proposals giving individuals choice over the spending of their tax dollars apply only to the federal income taxes. However, State governments would be free to adopt similar programs in their own jurisdictions. In addition, taxpayers would be free to allocate their federal tax dollar contributions to State and local government welfare programs if they choose to do so.

As we have already observed, the New South Wales government has begun transferring taxpayer dollars from public welfare organisations to private charities. However, the way in which they intend to do this still leaves the individual taxpayer out of the decision making process by limiting money to be redistributed to a select number of organisations determined by State parliament; at the moment only organisations working in the areas of adoption and care of state wards and emergency relief would be eligible for redistribution, and participating agencies must submit themselves to the authority of a single body charged with overlooking the particular areas of welfare nominated for privatisation. Small compensation has come in the form of allowing the private organisations to place their own representatives on the overseeing authority. However, this is nothing more than

token privatisation and diverges considerably from a system that allows more initiative from the general public.

21. Under Proposal B and C, you would allow individual taxpayers to make all of the choices on how welfare dollars are spent. If people chose to give all of their tax dollar contributions to private sector organisations, wouldn't this completely remove elected officials from the decision-making process and make politicians essentially superfluous?

Not completely, because politicians would still have to set up and maintain the legal framework that our proposals require. But they would in effect be removed from the decision-making processes whereby welfare dollars were donated and allocated.

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