

# **Poverty in Australia**

# **Poverty in Australia**

*Beyond the Rhetoric*

Peter Saunders and Kayoko Tsumori

CIS Policy Monograph 57

**2002**

Published November 2002 by  
The Centre for Independent Studies Limited  
PO Box 92, St Leonards, NSW 1590  
Email: [cis@cis.org.au](mailto:cis@cis.org.au)  
Website: [www.cis.org.au](http://www.cis.org.au)

Views expressed in the publications of The Centre for Independent Studies are those of the authors and do not necessarily reflect the views of the Centre's staff, Advisers, Directors or officers.

National Library of Australia

Cataloguing-in-Publication Data:

Saunders, Peter, 1950-.

Poverty in Australia : beyond the rhetoric.

Includes index.

ISBN 1 86432 072 9.

1. Poverty - Australia. 2. Public welfare - Australia.  
I. Tsumori, Kayoko. II. Centre for Independent Studies  
(Australia). III. Title. (Series : CIS policy monographs ;  
57).

305.5690994

©2002 The Centre for Independent Studies  
Book design by Heng-Chai Lim  
Cover design by Heng-Chai Lim and Carolynn Chen  
Edited by Carolynn Chen  
Printed by Harding Colour, Brisbane, Queensland  
Typeset in AGaramond 11pt

## **BEYOND THE RHETORIC . . .**

Millions of Australians are only one step away from being homeless, a leading welfare organisation said today . . . [t]he organisation warned that more needed to be done if Australia was to avoid a homelessness epidemic . . . [t]he one million women who had suffered domestic violence, the almost two million people in casual work and the 400,000 Australians holding down two or more jobs could be 'on the razor's edge' of homelessness . . . on any given night, 300 people were sleeping on the streets of Sydney . . .

*The Sydney Morning Herald*  
**22 April 2002**

# Contents

About the Authors	viii
Acknowledgements	ix
Foreword	xi
<i>Peter Dawkins</i>	
1. What is Poverty?	1
2. Poor Research	23
3. The Myth of 'Social Exclusion'	45
4. Redistribution or Self-Help?	63
Endnotes	93
Index	116

## About the Authors

**P**eter Saunders is Director of Social Policy Programmes at The Centre for Independent Studies, Honorary Associate in the Department of Sociology at Macquarie University and Professor Emeritus of the University of Sussex. From 1999-2000 he was Research Manager at the Australian Institute of Family Studies, where he edited *Reforming the Australian Welfare State*. Professor Saunders has held visiting research and professorial positions at Brown University, the University of Bremen, Melbourne University, ANU and RMIT.

**K**ayoko Tsumori has a PhD in Political Science and International Relations from the Australian National University. She is a Policy Analyst with Social Policy Programmes at The Centre for Independent Studies. Her current projects include labour market reform and welfare reform in Australia. Her most recent publication for the Centre was the *Issue Analysis* paper, 'Poor Laws (1): The Unfair Dismissal Laws and Long-term Unemployment' (August 2002).

## Acknowledgements

**W**e would like to thank Jim Cox, Graham Dorrance, Helen Hughes, David Green and Martin Stewart-Weeks for helpful comments on an earlier draft of this manuscript. Rob Bray, Leon Pietsch, Hilary Silver and Peter Whiteford gave valuable advice on various technical issues, and Carolynn Chen and Susan Windybank provided editorial advice and guidance. The usual disclaimers apply.

## Foreword

**I**n 2002 there has been an important debate about poverty in Australia, sparked by a dispute between Peter Saunders and Kayoko Tsumori of The Centre for Independent Studies on the one hand, and The Smith Family on the other hand, based on research undertaken for them by Ann Harding of the National Centre for Social and Economic Modelling. Peter Saunders of the Social Policy Research Centre has subsequently engaged in that debate on The Smith Family side.

I will not take the opportunity in this Foreword to take sides, but I will say that I think that it is a very important discussion to have. I have heard it criticised on the basis that it is a very academic debate about measurement issues, and that the main focus should be on the causes of poverty and the policy solutions. But the measurement of the problem is an important issue. Further, the arguments about measurement are underpinned by an important debate about the meaning of poverty.

Peter Saunders and Kayoko Tsumori, therefore, should be congratulated for continuing to contribute to this discussion with this challenging monograph. It will not be the last word on the matter, but it is a very useful contribution to the discussion.

There are some important issues addressed by the authors. These include such questions as the following:



- Is the concept of relative poverty a sensible one?
- Is the concept of social exclusion a meaningful one?
- Are the statistics on income from which income poverty measures are derived reliable?

Saunders' and Tsumori's answers to these questions are essentially negative. And they mount some good arguments to reach those negative conclusions. They also appear to question the value of the ongoing research agenda on poverty *per se*, because of problems with the concept of poverty, especially relative poverty.

There is, however, a tension between their apparent view that poverty research is of dubious value because of problems with the concept, especially of 'relative poverty', and their view that 'it is right that as a society that we should be concerned about poverty'.

All this points to the need for more research, rather than an abandonment of a poverty research agenda. What has become clear is that there is a lack of consensus about the definition and measurement of poverty. Saunders and Tsumori may be right to say that poverty researchers inflate the size of the problem. But it is wrong to give up any hope of improving our understanding and measurement of the problem.

At the *Towards Opportunity and Prosperity* 2002 Economic and Social Outlook Conference, organised by the Melbourne Institute and *The Australian*, the Secretary of the Treasury, Dr Ken Henry, commented on this debate about poverty in Australia. He also questioned the concept of relative poverty and quoted Amartya Sen in saying that a fully relativised view of poverty just as 'an issue of inequality' must be rejected.<sup>1</sup> Henry went on to discuss Sen's concept of 'capability deprivation' as a strong conceptual basis for furthering our understanding of poverty.<sup>2</sup>

Sen argues that 'policy debates have been distorted by over-emphasis on income poverty and income inequality, to the neglect of deprivations that relate to other variables, such as unemployment, ill health, lack of education and

social exclusion'.<sup>3</sup> Rather than seeing the consideration of these variables as outside of the context of poverty, however, he sees them as incorporated in a broader view of poverty.

This will lead to further measurement problems that may cause some commentators to throw their hands in the air. Judging from the comments of Peter Saunders and Kayoko Tsumori in Chapter Three on 'the myth of social exclusion', I suspect they may be amongst the sceptics.

But the research agenda proposed by Sen, in my view, is well worth pursuing. Sen provides some very useful guidance in this endeavour, pointing out that while it may not be possible to obtain a 'total comparison' of all capabilities, partial comparisons are often possible. Further he proposes the 'supplementary approach' as a useful way forward. In this approach, income is the primary focus, (and is seen as an important determinant of various capabilities) but 'such factors as the availability of reach of health care, evidence of gender bias in family allocation, and the prevalence and magnitude of joblessness can add to the partial illumination provided by traditional measures in the income space'.<sup>4</sup>

This takes me to a point where I strongly agree with Saunders and Tsumori. In the last chapter they point to 'lack of paid work' as the principal cause of poverty in Australia. Research at the Melbourne Institute has shown that the incidence of children living in jobless households has risen to about one in six,<sup>5</sup> and that decomposing the trends in inequality of income across households demonstrates that about half of the increase in inequality over the last 20 years (that inherent in ABS income survey data), could be attributed to changes in the distribution of employment.<sup>6</sup>

Reducing the incidence of jobless households (especially jobless families with children), should be the central policy focus, both from Sen's point of view of capability deprivation, and from the perspective of reducing income poverty in Australia.

In conclusion, it is implausible that a unique and widely accepted measure of poverty can be obtained. It is plausible, however, that a range of measures of different dimensions of poverty can be obtained, and that we could improve the understanding of what these alternative measures show. I think it would be very timely, over the coming year, to get together a range of Australian experts on poverty and inequality to seek some agreement about useful ways forward in this regard. It will be important to have Saunders and Tsumori at that table. Meanwhile, I commend their monograph as an important contribution to the discussion.

*Professor Peter Dawkins*  
*Director, Melbourne Institute of*  
*Applied Economic and Social Research*

#### **Endnotes**

- <sup>1</sup> A.K. Sen, 'Poor, Relatively Speaking', *Oxford Economic Papers* 35 (1983), p.157.
- <sup>2</sup> K. Henry, 'Globalisation, Poverty and Inequality: Friends, Foes or Strangers?', Paper presented to the *Towards Opportunity and Prosperity Conference* (University of Melbourne, April 2002). To be published in the *Australian Economic Review*.
- <sup>3</sup> A.K. Sen, *Development as Freedom* (Oxford: Oxford University Press, 1999), p.108.
- <sup>4</sup> A.K. Sen, *Development as Freedom*, pp. 82-83.
- <sup>5</sup> P. Dawkins, P. Gregg, and R. Scutella, 'The Growth of Jobless Households in Australia', *Australian Economic Review* 35:2 (2002), pp.133-154.
- <sup>6</sup> D. Johnson, R. Wilkins, 'The Effects of Changes in Family Composition and Employment Patterns on the Distribution of Income in Australia', Paper presented to the *Towards Opportunity and Prosperity Conference* (University of Melbourne, April 2002).

## What is poverty?

**A**sk most Australians what they think 'poverty' is, and you will get answers such as: 'not having enough food on the table', 'not having anywhere to live', 'being unable to buy clothes for your children', and so on. Over three-quarters of people think of poverty in this way, as a lifestyle at or below subsistence level. We call people 'poor' when it is clear that they lack the basics and therefore face a daily struggle to make ends meet.<sup>1</sup>

Because so many of us think of poverty as subsistence, we are naturally horrified when researchers tell us that large numbers of our fellow citizens are poor. Poverty is a harsh word for harsh conditions. It conjures up images of people sleeping rough and of children going hungry, of grinding and perpetual conditions of human misery and suffering. Nobody of goodwill would wish this upon anybody else.

Given that it is such a 'powerful and emotive term',<sup>2</sup> it is beholden on academics, politicians and policy advocates who write or talk about 'poverty' to be restrained in the claims they make about it. Tell people that Australia has a major problem of poverty (especially a major problem of *child* poverty),<sup>3</sup> and you can expect to attract widespread support for any policies claimed to be necessary to sort the problem out. For those seeking radical change, it is therefore tempting to make the poverty statistics look as bleak as possible, for

the worse the problem appears to be, the more radical the proposals the public is likely to accept in order to solve it.

Because poverty is such a politically charged word, it can be exploited by those whose aims go far beyond ensuring that everybody has food in their bellies and a roof over their heads. When we encounter claims about the extent of poverty in Australia, it is therefore wise to examine them closely. In particular, we need to ascertain whether policy advocates are using the word 'poverty' to mean what the rest of us mean, and we need to inspect the data that they are using to see if their statistics are reliable.

In this chapter, we look at how Australia's social policy community has been defining poverty and at how they measure it. We then go on to look at the reliability of their statistics in Chapter Two.

### **Absolute poverty**

In the terminology of the social policy community, people who lack the most basic of life's requirements are said to be in 'absolute poverty'. Absolute poverty exists when a family or an individual lives at a standard below subsistence level. We have seen that this is what most Australians mean when they think of poverty.<sup>4</sup>

It is important to recognise that absolute poverty is not necessarily the same thing as lack of money (although people's money incomes are often used as an indicator of their living standards). People who endure conditions of absolute poverty may do so because they lack the income or resources necessary to maintain a decent standard of life, but it is also possible that they are suffering because they manage their resources badly, or even that they have chosen a lifestyle which most other people would regard as unacceptable. Absolute poverty is defined by a below-subsistence standard of living, not by a given level of income.

Defining absolute poverty as a mode of life that falls short of 'basic' subsistence obviously begs the question of what the basic requirements of life might be. Food, for example,

is clearly a necessity of life, and so too is shelter, but what kind of food is required, and shelter at what kind of standard? A century ago it was normal for people to live in houses with an outside toilet, no bathroom and no hot running water, but today conditions like these are widely considered unacceptable, and Australian households lacking such amenities would be seen by many as falling below a basic subsistence standard. There is similarly a problem comparing living standards across countries, for a style of life that may be regarded as basic but adequate in Calcutta would probably provoke apoplexy on Sydney's North Shore.

Bare subsistence, it seems, varies over time and place. There are two ways we might respond to this problem.

One is to insist that 'absolute poverty' means what it says—it is the lack of access to the minimum conditions required to maintain human life. Defined in this way, poverty is easy to recognise—you can quantify it by the length of the queue for a bowl of rice or by the number of people dying of dysentery. This is basically what the United Nations has in mind when it defines absolute poverty as: 'Severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information', although even this definition goes beyond mere physical requirements (people do not die for lack of access to newspapers or the internet). Less ambiguously, perhaps, Amartya Sen has argued that there is 'an irreducible absolutist core in the idea of poverty. If there is starvation and hunger then . . . there clearly is poverty.'<sup>5</sup>

Defined in this rather uncompromising way, it is difficult to see how the concept of 'absolute poverty' has any purchase on an understanding of the conditions of life in contemporary Australia. Many remote Aboriginal communities may lack ready access to some basic services such as education and information, but with government benefits available to them, this puts them in a different category to the Third World. Nor are homeless youngsters on the streets of Kings Cross dying of starvation.

The second response to the problem of defining what the basic standards of life might be is to accept that these will differ between different times and places. Subsistence in Australia in 2002 is not, therefore, the same thing as subsistence in Australia at the time of federation; nor is it the same as subsistence in less developed countries today.

This, however, undermines the very notion of 'absolute poverty' as a standard of life at or below subsistence level, for subsistence itself turns out to be a relative concept. If subsistence means lacking hot running water at one time and place but not at another, then we lack any 'absolute' standard by which to gauge 'absolute poverty' levels, and the notion of 'absolute poverty' collapses. It is for this reason that Peter Saunders of the Social Policy Research Centre (SPRC) argues that, in the end, there can be no such thing as an absolute poverty line: 'Most people think of poverty in subsistence terms, but that is not the same as supporting an absolute definition of poverty . . . what constitutes a minimum standard of living depends on what is customary or normal in specific circumstances. Even "absolute" poverty lines thus end up being relative!'<sup>6</sup>

If the term is to retain any distinctive meaning, therefore, 'absolute poverty' must be defined quite strictly as a standard at or below the physical subsistence level, and without reference to prevailing social norms. Defined in this way, there are still millions of people in the world living in or close to absolute poverty at any one time, but few of them live in Australia. It is for this reason that policy debate in developed nations like Australia tends to pass over the issue of absolute poverty and focuses instead on poverty defined in a relative way.<sup>7</sup>

### **Relative poverty**

Australia is one of the wealthiest countries in the world, and almost every year that passes it gets wealthier still. The national wealth has doubled since 1960, and at current growth rates it will have doubled again within two or three

decades. This sustained rate of economic growth means that we take for granted today a lifestyle which our grandparents could only have dreamed about. This is true at all levels of income, for all households have seen their living standards rise as national wealth has grown.

This rising level of affluence has meant that people not only earn more now from employment, but also that increasing numbers of people can be fed, clothed, housed and educated even when they are economically inactive. People who fail to achieve self-reliance are protected from destitution by an expensive government welfare system and government spending on welfare benefits and services in Australia has increased five-fold in real terms since 1960. More than one in eight adults of working age live on government handouts rather than from earnings.<sup>8</sup>

When social policy professionals discuss 'poverty' in Australia today, they do so in this context of historically high wage levels and high levels of social welfare provision. This means that they are almost always referring, not to 'absolute' but to 'relative' poverty.

Relative poverty occurs when a household's standard of living falls short of what is generally considered 'normal' or 'decent' or 'acceptable' in that culture.<sup>9</sup> If most people expect to have access to hot running water in their homes, for example, then people who cannot afford this are 'relatively poor'. Similarly, if most people expect to go away on an annual holiday, then those who cannot afford a holiday are considered 'relatively poor', and if most people take for granted ownership of a car, then those who cannot afford one are in 'relative poverty'.

#### *Problems of measurement and definition*

Just as there are problems in the concept of 'absolute poverty', so too there are some obvious difficulties when we come to define poverty in this relative way. Two, in particular, are critical. The first has to do with measuring relative poverty; the second has to do with defining it.



The problem of *measurement* has to do with specifying what a 'normal' living standard is. How many people have to take holidays away from home, for example, before the inability to afford a holiday comes to be defined as poverty? Linked to this is the problem of choice and cultural heterogeneity. The very notion of defining a 'normal living standard' seems to imply a degree of cultural homogeneity in the population which is highly questionable in today's Australia. Does variation in the chosen style of life followed by different cultures and ethnicities mean that we have to develop different standards of relative poverty for different groups in the population?

The problem of *definition* is that, as economic growth raises living standards (including those of the people on the lowest incomes), there presumably comes a point where it strains credulity and commonsense to refer to those at the bottom of the income and wealth distribution as 'poor'. Imagining a society of fabulous opulence, for example, Amartya Sen notes: 'It would be absurd to call someone poor, just because he had the means to buy only one Cadillac a day when others in that community could buy two of these cars each day.'<sup>10</sup> This 'absurdity' seems, however, to be inherent in relative definitions of poverty, for no matter how much things improve across the board, relative poverty rates will remain unchanged unless there is also a shift in the distribution of incomes.

This points to a recurring weakness in the literature on relative poverty, which is that the term 'poverty' constantly gets confused with the very different concept of 'inequality'. This is an issue which we shall be encountering throughout this book, for we shall see that campaigners often refer to poverty when what they are really concerned about is income inequality.

### **Measuring relative poverty**

Relative poverty is a standard of living that falls short of what is considered 'normal' in a society. As with absolute

poverty, it is important to remember that people living below this standard do not necessarily lack an adequate income. It is possible, for example, to live in relative poverty because you spend your income unwisely, or because you fail to avail yourself of the opportunities available to raise your income. As we shall see in later chapters, the question of *whether* people are poor has to be distinguished from the question of *why* they are poor, and we should not simply jump from the observation that somebody is experiencing relatively poor living standards to the assumption that their problem stems from an inadequate income.

Notwithstanding this important rider, however, the concept of 'relative poverty' is generally operationalised by drawing a 'poverty line' at an income level considered necessary to maintain a 'normal' and 'acceptable' standard of living.

There are basically three ways in which an income-based poverty line may be identified:<sup>11</sup>

- One is to find out what most members of the public think is a minimum necessary income and to draw a poverty line at this point.
- A second involves drawing a line at the income level necessary to afford a clearly defined 'basket of goods', all of which are thought to be required to maintain an acceptable lifestyle.
- The third (and most common) method is simply to draw a line at some arbitrary percentile point along the distribution of incomes in the population.

Needless to say, all three approaches have their problems.

#### *'Subjective' and 'consensual' definitions*

The first approach tries to define poverty according to what ordinary people think it is. There are basically two ways this can be done:

- In 'subjective' studies, people are asked whether they think they have sufficient income to stay out of poverty, and a poverty line is then estimated around the point in

the income distribution where substantial numbers of people start to say that they do not.

- In 'consensual' approaches, people are asked what they consider to be the lowest income they (or households like theirs) need to make ends meet, and a poverty line is estimated around the point where answers converge.<sup>12</sup>

Both strategies adjust their estimated poverty lines to take account of differing household sizes and composition (a family with several children, for example, will usually say it needs a higher income than a person living alone, so different poverty lines have to be calculated based on answers given by different types of households).

These survey-based approaches to defining a poverty line seem logical given that the concept of relative poverty is defined with reference to prevailing social norms. If poverty is a living standard below a socially-accepted level, it makes sense to ask members of the public to define what that level is. In practice, however, these approaches run into major difficulties.

British research using the subjective approach, for example, has found that 17% of people believe their incomes are below the absolute poverty levels applicable to developing countries. Although the author of this study appears to take these views seriously,<sup>13</sup> results like this suggest that this sort of approach may be seriously undermined by exaggeration and hyperbole on the part of respondents. Equally, the SPRC's Peter Saunders finds when applying a similar method in Australia that few people are willing to admit to having either insufficient or surplus incomes, and he concludes that 'the question itself is problematic'.<sup>14</sup>

Consensual approaches are no less problematic, for studies generally find that there is very little consensus over what a minimum income might be. Partly because people tend to be over-generous when defining minimum incomes for others which they will never have to pay themselves,<sup>15</sup> and partly because people's perception of what is 'necessary' for others tends to reflect the standard of living to which they

themselves are accustomed, 'poverty lines' tend to get pulled upwards as respondents pitch their minimum estimates high. As a consequence of this, research using this sort of approach often comes up with implausible results. Peter Saunders, for example, reports poverty rates in Australia of 42% (rising to 82% for elderly people) based on a consensual poverty line, and although he has previously written in support of this approach to measuring poverty, even he admits that these estimates seem 'implausibly high'.<sup>16</sup>

*A minimum income poverty line*

A second approach to defining poverty lines is to try to calculate 'objectively' what income people need to buy the goods and services they require to keep their heads above water.

This approach was pioneered in Australia by Ronald Henderson in his work on poverty in Melbourne during the 1970s. Henderson did not actually identify a 'basket of goods' to fix a minimum income line but relied instead on the basic wage prevailing at that time. He thought this defined a standard of living 'so austere as to make it unchallengeable' as the basis for a poverty line, although in reality his line was clearly as arbitrary as any other.<sup>17</sup> Despite this, the Henderson line subsequently gained widespread acceptance in the social policy community, and it has been regularly updated to take account of inflation.

The method of updating has, however, resulted in a massive inflation in the value of the poverty line itself. Updating was initially done by pegging its value to rises in Average Weekly Earnings, but later it was linked to per capita household disposable incomes, and this has substantially raised its value in terms of spending power as time has gone on. During the course of the 1990s, for example, the Consumer Price Index (CPI) rose by just 18%, average incomes rose by 28%, but household disposable income per capita—the index on which the Henderson line is now updated—rose by 36%.<sup>18</sup> This means that the Henderson

poverty line has become less and less 'austere' as time has gone on, for it has been inflating at twice the rate of the CPI.

Poverty estimates based on the updated Henderson line suggest that over 20% of Australian households were living 'in poverty' by the year 2000 (up from just 12% in 1990).<sup>19</sup> This, however, tells us less about any increase in poverty that may have occurred than it does about the growing generosity of the line used to measure it.<sup>20</sup>

More recently, researchers at the Social Policy Research Centre have produced what they call a low cost 'indicative budget standard' for Australia. The federal government (which commissioned this work) is reluctant to refer to this low cost standard as a poverty line, but this is effectively what it is, for it is intended to define a level 'below which it becomes increasingly difficult to maintain an acceptable living standard because of the increased risk of deprivation and disadvantage'. The SPRC research team appears in little doubt that this can be treated as a poverty line, and they suggest that it could be used to complement or replace the better known Henderson line.<sup>21</sup>

This low cost standard was derived by compiling a list of thousands of items which most people buy or are deemed to need. An initial list was drawn up using a UK budget standard study and was then refined by consulting 'experts', convening focus groups and inspecting household consumption surveys. Where possible, items were included on the basis of official standards (for example, recommended nutritional and housing standards). Where no such standards exist, items got included (with a few exceptions) if they were purchased by 75% of the population. For example, because most households own a VCR, make an annual visit to an animal or marine park, purchase walking boots, goggles and a swim hat, have a holiday away from home once in a while, own a car, enjoy a haircut every eight weeks, purchase antacid tablets and own a pet the equivalent of a neutered male cat, all of these items ended up on the list.

Having compiled the list, the price of every item was ascertained, and the total income which households of varying compositions require to pay for all of these items was calculated. The result is the low cost budget standard.

One problem with this approach concerns what we can call the 'fallacy of aggregation'. While it may be true that a majority of people buys *each* of the items included on the list, it does not follow that a majority buys them *all*. For example, if three-quarters of us own walking boots, and three-quarters of us own a swim hat, there is nothing to say that these are the same three-quarters in each case.

The authors recognise this problem, noting that there may be an 'upward bias' in their minimum income estimate because 'it does not allow sufficiently for the choices that are made between items that meet similar needs'.<sup>22</sup> Having noted the problem, however, they do little to resolve it. They do allow for some limited degree of substitutability between items on their list (for example, households need not have enough money to buy both soy sauce and tomato sauce, even though both pass the 75% threshold). But they are reluctant to allow extensive substitution for they worry that this would undermine the whole basis of their calculations (the more substitutions and trade-offs that are included, the more arbitrary and subjective the list of necessities becomes).

In reality, however, all households make multiple substitutions and trade-offs, which is why we find far fewer than 75% of households in the real world which have walking boots, a swim cap, a VCR, antacid tablets and a neutered tom cat all under the same roof. This suggests that the SPRC's calculation of a minimum low cost budget may be much higher than what is actually required to maintain a reasonable living standard—how much higher can only be a matter for conjecture.

The suspicion that the standard may have been set too high is reinforced by the fact that it works out in most instances to be even more generous than the updated Henderson poverty estimates. The divergence between the

two is especially marked in the case of households with children where the SPRC's measure comes out as much as *40% higher* than the Henderson one.<sup>23</sup> The SPRC authors believe that this demonstrates just how extensive the problem of deprivation in Australia really is; the alternative interpretation is that it demonstrates just how inflated their low cost budget standard has turned out to be.

*Percentile poverty lines: (a) Median-based*

A much simpler method for calculating a relative poverty line is to draw it at a certain point along the distribution of incomes. This avoids all the bother and expense of having to calculate budget standards and keep them updated—we simply define as 'poor' anybody below a given level of (equivalised) income.<sup>24</sup>

But where should we draw the line? Many studies of 'relative poverty' base their poverty line on some proportion of the *median income* in the population (the median income is the income earned by the person at the middle of the distribution, where half the population earns more and half less). To define a poverty line in this way, we rank everybody's income in descending order, find the income of the person in the middle of the ranking, and then define the poverty line as some proportion of what they get.

But what proportion of median income should we choose for our poverty line? This varies between different researchers. OECD studies have generally taken 50% as their cut-off, the EU has agreed on a poverty line at 60%, and some European studies have drawn it at 70%.<sup>25</sup> There is no way of determining which of these median-based poverty lines is 'correct' or even 'preferable', for they are all completely arbitrary. We could equally choose to draw a line at one-quarter of the median income, three-quarters of the median income, or anywhere else we consider appropriate. In the end, common practice within the research community is all that governs our choices—if other researchers think our line is reasonable, then it will not be challenged.

*Percentile poverty lines: (b) Mean-based*

Sometimes, researchers base their calculations of the poverty line on the *mean population income*. The mean income is the arithmetic average. Because many people receive fairly modest incomes but only a few earn very high ones, the mean income in a population is nearly always higher than the median. Basing the measurement of poverty on some proportion of the mean income will therefore usually produce a higher, more generous poverty line.

Defining poverty as some percentage of mean income is just as arbitrary as using a median-based measure. It also creates further, unique difficulties because the mean is sensitive to extreme values at either end of the distribution. If a small number of people at the very top of the distribution significantly increase their incomes, for example, this will inflate the mean and will therefore pull up any poverty line based on it. This will in turn increase the number of people found to be 'in poverty', even though most people's living standards have not changed.

Mean-based poverty measures can produce extremely misleading results, especially if we are tracking poverty trends over time. It is quite possible, for example, for those on the lowest incomes to become better off at much the same rate as most other people, yet for poverty researchers to find that poverty has *worsened* simply because a few high earners have done even better than everybody else.

*Mean- versus median-based measures:**The example of The Smith Family/NATSEM poverty report*

An example of how a mean-based measure can generate quite misleading results is provided by recent research produced for The Smith Family by the National Centre for Social and Economic Modelling (NATSEM).

This report caused quite a stir when it was published in late 2001, for it claimed that 13% of Australians were in poverty, more than one in eight of the population, and that the numbers in poverty has been rising through the 1990s



despite sustained economic growth. This second claim in particular was political dynamite, for it seemed to suggest that even when a market-driven capitalist system is flourishing, poverty gets worse.

Both of the report's headline findings depended crucially on the definition of the poverty line as 50% of mean income. The authors themselves admitted that, if they had adopted a poverty line at 50% of the median income, their estimate of the numbers in poverty would have been much lower—just 8.7%, or one in 12 of the population. They also admitted that a poverty line drawn at half the median income would have shown that 'poverty has remained relatively stable over the 1990s'.<sup>26</sup>

The study reported that the average incomes of 'poor families', after controlling for the effects of inflation, increased by \$38 a week during the 1990s.<sup>27</sup> This was almost exactly the same increase as that enjoyed by households on the median income who saw their real incomes rise by an average of \$37 per week. But with a poverty line based on half the mean income, estimates were inevitably skewed by the dramatic increase in earnings at the very top of the distribution that occurred through the 1990s. The top 5% of income earners in Australia saw their after-tax incomes rise by an average of \$172 per week in real terms over that decade. This dragged the average income up, thereby raising the poverty line and increasing the number of people falling below it. Even though the lower income earners had improved their situation in absolute terms, and had kept up in relative terms with the middle earners above them, the percentage of the population defined as being 'in poverty' rose from 11.3% in 1990 to 13% in 2000.

#### *The absurdities of a mean-based measure*

As well as generating an artificial increase in the numbers of people found to be 'in poverty', estimating a poverty line as a proportion of mean income can generate some paradoxical consequences.

For example, we could reduce the number of 'poor' people simply by making richer people less affluent, for cutting their incomes reduces the mean and therefore lowers the poverty line. As *The Australian* noted in an editorial: 'We could confiscate an even bigger share of the income going to the top half of earners and throw the money in the Great Australian Bight. Presto . . . poverty as measured would fall.'<sup>28</sup>

Even more remarkably, if we increased the incomes of everybody below the poverty line so as to lift everybody out of poverty, many of them would immediately fall straight back into it again! This is because raising their incomes would increase the overall mean income in the population, thereby lifting the poverty line above the newly raised incomes of those at the lower end of the distribution.<sup>29</sup> A mean-based poverty line ensures that we spend the rest of eternity chasing our tails.

### **Relative poverty and income inequality**

Clearly, mean-based poverty measures encounter unique problems which make them unsuitable for estimating poverty rates. But even if we base poverty estimates on the median income, we still encounter problems. In particular, both mean- and median-based poverty measures share an unfortunate tendency to confuse the issue of poverty with the issue of inequality.

The two terms are in principle quite distinct. As Lyle Dunne reminds us: 'Poverty is about not having enough, and inequality is about not having as much as others.'<sup>30</sup> As we have seen, relative poverty is generally defined as a level of income which does not allow people to attain a standard of life deemed 'adequate' in their society. Inequality, by contrast, simply entails some people having more than others. In research on poverty, however, these two very different concepts get hopelessly mixed up.<sup>31</sup>

#### *Comparing 'poverty' across countries*

Given that 'poverty' and 'inequality' are two distinct concepts, it should be possible (at least in principle) to find

highly unequal societies where nobody is poor, and relatively egalitarian societies where many people are poor. When poverty is measured as a certain percentage of the mean or median income, however, such possibilities are effectively ruled out by the method of measurement. If an income distribution is tightly compressed (that is, incomes are fairly equal), few people will be below, say, 50% of the mean or median income, but if it is widely dispersed, many people probably will be.

This is one reason why cross-national research commonly finds that countries like the United States and Australia have much more 'poverty' than, say, the high-tax, high welfare Scandinavian nations. Taking their 'poverty line' as 50% of median income, for example, David Jesuit and Timothy Smeeding report that 5% of Finns, 7% of Swedes, 7% of Norwegians and 9% of Danes are 'in poverty', as compared with 13% of Britons, 14% of Australians and 17% of Americans.<sup>32</sup> They conclude that the northern European countries have the lowest poverty levels and the Anglo-Saxon countries have the highest, but all they are really saying is that the distribution of incomes appears to be more spread out in the latter than in the former. (Even this claim may be false, incidentally, for much of the difference in estimates of income inequality between countries stems from problems of non-comparability in the way the data are collected and analysed).<sup>33</sup>

The wider the recorded income distribution in a given country, the greater the rate of 'poverty' will appear to be when measured on the basis of mean or median incomes. The emotive word 'poverty' has thus become an ideological stick with which to beat more market-based, capitalist societies (such as the US or Australia) while praising more egalitarian, social democratic ones (like the Scandinavian countries). It is easier to push the political argument in favour of Scandinavian-style tax and welfare regimes if you can wrap this up in the language of fighting 'poverty', and this is exactly what has been happening in the literature on international poverty comparisons.<sup>34</sup>

### **Problems with measuring income inequality between countries**

We should question whether Australia is more unequal than the continental European nations, for the international data are not comparing like with like. In a personal communication, Peter Whiteford points out that in European social insurance systems, contributions by employers do not figure in surveys as part of the wage, even though they represent a portion of the wage fund paid by employers to government to buy insurance cover for employees. This means that employees appear to receive less in wages than they really do, which in turn reduces the apparent income gap between wage earners and those with no market income.

This makes these countries appear less unequal than those, like Australia, which do not have social insurance systems. Having said that, however, it has to be recognised that part of the social insurance contribution is redistributed to others (it is effectively a tax) and only a part pays for the employee's own retirement pension, health costs, etc. The 'tax' component should arguably count as a deduction from income. The problem here is that different countries have different mixes of redistribution and self-insurance in their social insurance systems (for example, Germany levies higher contributions than the UK or the US, but it returns a larger proportion of these contributions as insurance benefits—Britain and America take less away, but redistribute more of what they take).

Accurate international comparisons would need to take account of all these variations but at the moment they do not, which means they are ignoring a large (but internationally variable) percentage of the wage package. If we did measure all this in a comparable way across all countries, the mean and median income in high welfare spending countries would rise, and this would then increase estimates of both relative poverty (expressed as a percentage of either the mean or the median) and inequality (because the incomes of people on benefits would not increase).

As Whiteford concludes: 'The weight of the evidence supports the conclusion that, if a fully comprehensive framework for measuring income inequality were used, Australia would remain among the least unequal of developed countries.'

*The elision of poverty and inequality in Australian debates*

What is true of research across countries is true also of research within them. Despite the problems with defining poverty as a certain percentage of mean or median income, this is still probably the most common method employed by Australian poverty researchers. This has resulted in research on poverty in Australia getting hopelessly entangled with debates over inequality. Indeed, the two concepts have almost fused into one, and we shall see in Chapter Four how policy debates about poverty are constantly being refracted through an egalitarian political agenda. Helping the poor escape poverty has become synonymous with increasing taxes on higher earners to 'close the income gap'.

Some of the biggest culprits in this regard are Australia's voluntary sector agencies and pressure groups. Not only do they frequently link poverty and inequality in their policy discussions, but they often seem unaware of any distinction between them:

Most importantly, Australians should be concerned at the *increasing levels of inequality* in our society because *disadvantage* can be handed down from generation to generation. But what should be the government and community's response to the ways in which *poverty* impacts on current and future generations? (Anglicare Australia, emphasis added)<sup>35</sup>

In relative terms, increases of incomes of the *poor* during the past decade have been minor compared with those at the top. In other words, *the gap has widened*. This has bad consequences for social cohesion as well as people's ability to participate in society. Hence there is a need to *bridge the gap*. (The Smith Family, emphasis added)<sup>36</sup>

Whichever way you measure it, too many Australians are living in *poverty* . . . There is no doubt that there is a *widening gap* between Australia's high and low income earners . . . *Inequality and poverty* in Australia

are preventing many families and individuals from fully participating in our society. (Australian Council of Social Service [ACOSS], emphasis added)<sup>37</sup>

Government agencies too have now begun making exactly the same kind of error. Of particular concern in this respect is recent work by the government's statistical agency, the Australian Bureau of Statistics (ABS). Like the welfare lobbyists, the ABS now treats poverty and inequality almost interchangeably, blurring the distinction between them by developing a single mongrel measure which it calls 'economic disadvantage and inequality'.<sup>38</sup>

Having set out to track changes in the living standards of poor households, the ABS actually ends up looking at how incomes at the lower end of the distribution have been changing *in comparison* with those of people who are better off. The initial concern with poverty and deprivation ('whether the proportion of people in poverty . . . [is] rising or falling') is thus operationalised by addressing the very different question of income distribution ('whether the gap between the least and most disadvantaged groups has been growing or not').<sup>39</sup> The ABS justifies this by claiming that it is only following the example set by others in Australia's social policy research community: 'Income based measures, which compare the circumstances of people within and between different parts of the income range . . . remain the most widely used indicators of economic disadvantage.'<sup>40</sup>

What this example shows is that the confusion of poverty with inequality is now widespread and pervasive in the Australian social policy and research community. The ABS is the statutory authority charged with producing the official statistics on which the government relies to inform its policymaking. If even it now fails to understand the crucial difference between measuring poverty and measuring inequality, then it suggests that the poverty debate has been seriously undermined by radical egalitarian thinking. This is an issue to which we shall return in Chapter Four.

## Conclusion

Once we move beyond a bare, physical subsistence criterion, the definition and measurement of poverty inevitably becomes contentious. We would agree with James Cox when he suggests that drawing a relative poverty line always involves arbitrary judgements.<sup>41</sup> We would also concur with the SPRC's Peter Saunders who says that these judgements will inevitably be based in emotion and ideology.<sup>42</sup> Poverty, in other words, is an essentially contested, value-based concept. This might give us cause to wonder whether it is a concept worth retaining in social policy discourse, for it seems to be generating more heat than light in recent policy discussions.

We have seen in this chapter that some approaches to defining and measuring relative poverty are more indefensible than others. The most common approach, which involves drawing a poverty line at some percentage of either the mean or median income, is probably the least satisfactory.

One problem with it is that it does not correspond to what researchers mean when they talk of 'relative poverty'. We have seen that relative poverty is generally defined as an inability to maintain a lifestyle which adequately meets prevailing social standards, but there is no reason to assume that this point is reached when people's incomes fall below some arbitrary percentage of the mean or median income. The method of measurement does not relate to the conceptual definition. It is for this reason that different studies end up drawing their poverty lines at different points on the income distribution, for there is no theoretical rationale to guide them when they come to develop their measures.

A further problem with mean- and median-based poverty measures is that they almost invariably end up confusing the very different ideas of poverty and inequality. Particularly worrying in this regard is the fact that even the ABS now begins by talking about 'deprivation' yet ends up measuring income differentials.

The main alternative to measuring relative poverty by income percentiles is to adopt some sort of 'budget standard'. But we have seen that this too has its problems. Thirty years ago the Henderson poverty line may have represented an austere minimum budget standard, but this is certainly not the case today, for the method of updating it has inflated its value well beyond the income required to maintain a basic but acceptable standard of life.

The SPRC's more recent 'low budget standard' was developed partly in recognition of the weaknesses in the Henderson poverty line, and it entailed meticulous and painstaking research. But it turns out to be even more generous than the Henderson line (the low budget standard requires an income roughly equivalent to 70% or more of median income). This generosity may have something to do with the failure to allow for sufficient substitution between functionally-equivalent goods and services in the original 'basket of goods'. Whatever the explanation, using this budget standard as a basis for estimating relative poverty rates seems likely to result in even more implausible results, with as many as a quarter or even a third of the population getting defined as 'poor'.

When we have made these sorts of observations before, poverty researchers have challenged us to come up with a better method of measuring poverty than the ones we criticise.<sup>43</sup> But rather like those medieval theologians who argued about the number of angels that could dance on the head of a pin, this challenge misses the point. If the concept you are working with is flawed, there is a limit to how far you can refine your methods for measuring it.

In the end, the problem with poverty research in Australia lies in the theory as much as the methods, for the concept of relative poverty is ill-defined and chaotic. When even those who work in this area recognise that their key concept is grounded in arbitrary and ideological judgements, we are surely entitled to ask why social scientists persevere with it at all.



## Poor Research

**T**here can be no authoritative answer to the question of how many Australians live in 'relative poverty'. The answer will depend on the definition used and the method of measurement adopted.

Estimates of the rate of relative poverty in Australia vary widely. The NATSEM/Smith Family report discussed in Chapter One helpfully computed a series of estimates for the year 2000 based on different systems of measurement. These ranged between a low of around 8% (based on a poverty line drawn at half the median income) and a high of over 22% (based on the updated Henderson poverty line).<sup>44</sup> Bearing in mind that some other estimates, such as the Social Policy Research Centre's (SPRC) low budget standard, set a minimum income some 30% or 40% above the Henderson line, and some—like the consensual approach—go even higher than this, we can reasonably conclude that the Australian research community thinks that relative poverty affects at least one in 12, and perhaps as many as one in four or even one in three, Australians.

In this chapter we shall see that even the most modest of these estimates probably exaggerates the extent of the problem. We shall also see just how reluctant the social policy research community is to admit this.

### **Where do the data come from?**

Whichever method of measurement they adopt, researchers have to rely for their evidence of people's incomes and living standards on national sample surveys, and most use data from surveys conducted by the Australian Bureau of Statistics (ABS). In its report for *The Smith Family*, for example, NATSEM used ABS 1994-95, 1995-96, 1997-98 and 1999-2000 *Surveys of Income and Housing Costs* (SIHCs), as well as an earlier (1990) ABS *Income and Housing Costs and Amenities Survey*.<sup>45</sup> The ABS also conducts periodic *Household Expenditure Surveys* (HESs) which collect information on people's incomes as well as their spending, and these too are important sources for research on poverty (the most recent was in 1998-99).

The ABS is Australia's foremost data collection and social statistics agency. Its methods are generally rigorous and its sampling is meticulous. Nevertheless, there are compelling grounds for arguing that the income figures obtained from these various ABS surveys are so unreliable as to be unusable.

There are four significant problems with the various poverty estimates (based on ABS income data) that have been produced by the Australian research community (and which have been widely publicised in the Australian media).

- First, there is extensive movement of people across any poverty line we care to draw, so when we measure poverty at one point in time we are not talking about the same people as when we measure it at another.
- Secondly, people's living standards depend on 'income in kind' (particularly the value of government services) as well as cash income, yet the value of government services is ignored in virtually all the research that gets done.
- Thirdly, the income data do not correspond to the expenditure data—people at the bottom end of the income distribution seem to be spending much more than they say they are receiving—yet these income data have routinely been used as the basis for poverty estimates.

- Fourthly (and most important of all), we now know that the answers which people have been giving in these surveys have been inaccurate and misleading and that the estimates of incomes for the bottom 10% of the distribution should not be used at all.

**Problem one: What people get today is not what they will get tomorrow**

*Evidence of movement in and out of poverty*

In Britain, a household panel survey was started in 1991, and one of the most remarkable early findings was the high rate of turnover among those with the lowest incomes. In the first 12 months, for example, 39% of those in the bottom quintile of incomes at the start of the survey had moved out of it. One year after that, another 29% followed them out of the bottom quintile, while 27% of the earlier upward-movers had fallen back again. The net result after just two years was that 46% of those in the bottom quintile of incomes in 1991 were no longer there in 1993.<sup>46</sup>

As other countries have established similar panel surveys, so similar results have been obtained. A recent review of research findings from 11 western European countries found that between half (in Greece) and two-thirds (in Holland) of people falling under the poverty line in one year had escaped from poverty at some point in the next two years.<sup>47</sup>

Australia has only recently established a panel survey, so we have no comparable findings as yet, although a study by Deborah Mitchell and Trevor Breusch recently followed 1,662 people of working age and found that most of those in the bottom quintile of incomes in 1997 had moved up within three years (most rose to the second or third quintiles, but 14% of them made it to the richest fifth).<sup>48</sup> It seems from this that Australians experience the same sort of 'churning' in and out of poverty as has been found in the UK and Europe.

This suggests that the problem of poverty is nowhere near the scale or the durability traditionally assumed by poverty researchers using one-off cross-sectional surveys. With surveys which look at the income distribution at different times using different samples, there is no way of knowing how much 'churning' is going on, but it had long been assumed that we were looking at mostly the same people from one survey to the next. If this is not the case (and it seems it is not), it means that many of those who are 'poor' at any one time will *over a lifetime* average incomes comfortably above poverty levels.

*Long-term poverty and short-term hardship*

The high level of turnover in and out of poverty from year to year should not surprise us, for temporary hardship is a normal feature of the life cycle. Most of us experience variations in our incomes as we go through life, and many of us therefore experience temporary periods of 'relative poverty'. But even when our equivalised incomes dip below some defined poverty line, this is unlikely to prevent us from 'participating' effectively in our society, nor does it 'exclude' us from maintaining access to 'normal' activities over an extended period.

Students, people between jobs, self-employed people who hit a lean patch, young people on a gap year after school or college, women who take time out of the labour market to have a child, older people who cut back on their working hours to increase their leisure time, all are among those whose incomes may dip under the poverty line at any one time, but these are not the people most of us think of when we talk of the problem of poverty. They are temporarily hard up, and although it is never easy when money is tight, their situation does not require the sort of large-scale government intervention that social policy pressure groups have been advocating on the strength of single timeframe poverty estimates.

If we are to take seriously the definition of relative poverty as the inability to participate in the normal activities

of our society, then many of the people below the poverty line at any one time cannot be considered 'poor'. Their hardship is fleeting and their lives are following a normal path. While many people may experience incomes below the poverty line at some point in their lives, relatively few do so for an extended period. Many of us experience poverty at some point in our lives, but few of us are blighted by it.

It follows that taking the transitional cases out of the figures would leave us with estimates much lower than those generated in any single survey.

### **Problem two: What people get in cash is supplemented by indirect government benefits**

#### *The value of government services*

David Green's work in Britain found that the imputed cash value of government housing, education and health services consumed by the lowest quintile of income earners added another 73% to their average post-tax 'disposable income'. At the other end of the distribution, however, these services added only 7% to the average disposable income of the richest quintile. This means that the 'final incomes' of the less well-off groups (that is, their income taking account of the value of all services received as well as all deductions paid) are much higher than their disposable cash incomes would lead us to suppose, and the gap between the final incomes of the top and bottom quintiles is much narrower than data on disposable incomes seem to indicate.

Similar findings have been reported in Australia. As in Britain, so too in Australia, government services are worth relatively more to those on lower incomes than to those on higher ones.<sup>49</sup> People in the top decile enjoyed an average disposable income in 1995 of \$1,375 per week, and they received \$100 worth of government services. Government services therefore supplemented their final incomes by just 5%, but at the other end of the distribution, these services added a 48% top-up for those in the bottom decile.

Comparing their disposable incomes, the people in the top decile are on average five times better off than those at the bottom, but comparing their final incomes, they are less than four times better off. This difference shows up clearly in measures of income inequality like the 'Gini coefficient'.<sup>50</sup> Ann Harding reports that the Gini coefficient falls from 0.376 to 0.342—'an appreciable decline'—when government services are included in the calculation of people's incomes.<sup>51</sup>

David Johnson and colleagues found that between 1982 and 1994, the 'social wage income' (disposable income plus the imputed value of government services) 'was more equally distributed than disposable income', and that this reflected 'redistribution through the education and health services and other government benefits in kind'.<sup>52</sup> Measuring the degree of inequality by means of a Gini coefficient, they showed that in 1993-94, the coefficient was 0.315 for the distribution of disposable income but was only 0.244 for the distribution of social wage income.<sup>53</sup>

Clearly, estimates based on 'disposable' (cash) rather than 'final' incomes artificially depress the actual living standards of the poorest groups and stretch the 'income gap' between those at the bottom and those at the top of the distribution. Reported income inequality in Australia would be about 20% smaller if researchers based their estimates on people's final rather than disposable incomes.

#### *Why poverty researchers prefer to ignore indirect income*

The decision to include or exclude the value of government services when calculating people's incomes will have a huge impact on estimates of inequality and poverty. When we take account of the value of things like education and Medicare, the 'poor' turn out to get a lot more than we first realise and the gap between them and more affluent groups in the population narrows.

Most researchers are aware of this. In a 1995 paper, for example, Ann Harding of NATSEM noted:

The impact of public expenditure on such programmes as health, education and housing is frequently ignored in studies of income distribution. This may bias the assessment of both the relative living standards of different types of families at any particular point in time and the trends in income inequality over time.<sup>54</sup>

Yet despite this, NATSEM itself still disregards the value of public services in most of its poverty estimates.

Some poverty researchers are unrepentant about such omissions, arguing that it is unnecessary to take account of the value of government services when measuring people's living standards. At the SPRC, for example, Peter Saunders has suggested that government-funded services should not be included as part of people's incomes because they are only used when people have a need for them. According to this reasoning, consuming something that you need does not increase your living standards so the value of the service should not be counted as part of your income: 'Those groups who use these services the most do so because their needs are greatest, so that it is not legitimate to claim that social wage benefits raise them out of poverty.'<sup>55</sup>

Saunders seems to have in mind the use of free health services by the sick (treatment only restores them to health and conveys no advantage on them compared with those who are already healthy). His argument does not apply to government provision in other areas such as education and housing, for here people's living standards are unambiguously *raised* as a result of receiving the service in question. But on closer inspection, it does not apply to health services either.

The reason why the living standards of the sick are raised by free or subsidised health services has to do with opportunity costs—if the government did not provide this treatment without charge, the incomes of the sick would be lower than they are because they would have to pay for medical treatment or health insurance from some other

source. The basic point is that universal, free or subsidised government services relieve rich and poor alike of the need to buy them. To the extent that people pay less in tax than they would otherwise have to pay in charges or insurance (and this is generally true of those on the lowest incomes), these government services make them better off financially than they would otherwise be, in which case they should be included in any serious calculation of people's living standards.

*The difference between disposable and final incomes*

To rectify the bias caused by the omission of the value of indirect government benefits from estimates of poverty and inequality, Ann Harding has calculated how much additional income should be imputed to different kinds of households in order to arrive at their 'final income' (the value of their total income in cash and in kind from all sources). She found that non-cash government services added an average of \$125 per week (in 1995 prices) to the incomes of individuals in the lowest income decile. Given that their average declared net cash income (their 'disposable income') was only \$260 in 1995, this means that the poorest group's final income was increased by 48% when the value of government housing, education and health care was included.

If we were to recalculate relative poverty levels using data on final incomes, we would therefore find many fewer people falling below the poverty line, no matter how it is measured.

**Problem three: What people say they get is less than what they say they spend**

*Income and expenditure data*

Reviewing the ABS survey data in 2001, Helen Hughes noticed a contradiction: 'After tax household income estimates are substantially below expenditure estimates.'<sup>56</sup> In other words, what people say they get in income does not accord with what they say they are spending. We can



see this in Table 1 below which shows the mean incomes and expenditures in 1998-99 of a sample of Australians ranked by their reported gross incomes and then divided into five groups of equal size.

**Table 1: Comparison of ABS Income and Expenditure Figures, 1998-99**

	Gross Income Quintile					All Households
	Lowest 20%	Second Quintile	Third Quintile	Fourth Quintile	Highest Quintile	
Total Goods & Services Expenditure(\$)	342.85	482.58	648.04	851.03	1,171.40	698.97
Average Weekly Household Income*(\$)	159.62	413.96	712.31	1,115.75	1,996.29	879.22
Expenditure: Income Ratio	2.148	1.166	0.910	0.763	0.587	0.795

*Note.* \*Gross incomes including private incomes and government direct benefits.

*Source.* ABS, *Household Expenditure Survey: Detailed Expenditure Items, 1998-99* (Canberra: ABS, 2000), Tables 1 and 2.

The last row in the table shows the ratios of expenditures to incomes. If people report that they are earning more than they spend, this ratio will be less than 1; if they report earnings below what they spend, it will be above 1. It is clear that the lower quintiles show the higher ratios. Indeed, the people classified as falling into the bottom 40% of income earners appear on average to be spending much more than they receive, while everybody else receives on average more than they spend. At the bottom decile of reported incomes, people spend on average *2.3 times more* than what they say they receive.<sup>57</sup>

*Explaining the income/expenditure disparities*

Despite this glaring disjuncture between reported incomes and reported spending, the ABS insisted right up until 2002 that, 'There is no basis for making adjustments to the recorded figures.'<sup>58</sup> But people cannot indefinitely spend more than they earn, which means the ABS income data—especially at the lower end of the distribution—have been looking shaky for a long time.

Many Australian poverty researchers chose simply to ignore this crucial problem in the data they were using. Those who did address it generally assumed that the 'poor' people whose reported incomes fell a long way short of their spending must be drawing on savings or credit. Harry Greenwell and Ann Harding of NATSEM, for example, suggested that many people in this group must be going through a temporary period of hardship—when their incomes drop (for example, when they are between jobs, or when they are off work sick), they rely on things like credit cards, savings and other sources of stored wealth to maintain their normal standard of living until they are able to restore their previous level of income flow.<sup>59</sup>

But while this may be true of some people (until longitudinal panel data come on stream, it was impossible to know), it is unlikely that this could explain why and how 40% of the sample are living beyond their means. The more obvious, if unpalatable, explanation is simply that the reported income data at the lower end of the distribution are wrong.

This was what our CIS colleague Helen Hughes suggested in her 2001 *Policy* article. She thought that much of the disparity between income and expenditure figures occurs because 'survey respondents . . . do not report "black" incomes' and because ABS surveys fail to gather detailed information on other sources of income such as leave and severance pay.<sup>60</sup> It also seems likely that some respondents forget to mention smaller sources of income, such as interest on savings, or relatively small welfare payments.

Hughes' argument seems plausible, for according to one estimate, 'An average of \$55 billion (at 1989-90 prices) in taxable income has gone unreported every year since the mid-1980s and the amount appears to be growing.'<sup>61</sup> In the June quarter of 1996, it was estimated that the size of this 'underground economy' amounted to approximately 15% of Australia's GDP.<sup>62</sup>

Much (probably most) of this unreported income accrues to the people who end up at the lower end of the income distribution in social surveys—they appear to have the lowest incomes precisely because they under-report what they are receiving. Two groups in particular stand out: the self-employed and those reliant on government benefits. The 2001 NATSEM poverty report for The Smith Family found that 14% of self-employed people and 31% of those reliant on government cash benefits claimed to have incomes below the half-mean poverty line. These proportions compared with just 3% of wage and salary earners who reported incomes below this line.<sup>63</sup>

It may be that the self-employed and people on welfare benefits really do receive lower incomes than everybody else, but we need to remember that these are also the two groups who are least likely to tell government researchers about any additional income that they may be earning over and above that which is known to the tax or welfare authorities. The fact that they are heavily over-represented among those deemed to be 'in poverty' tells us only that they claim to receive less than other people do; it does not tell us whether or not this claim is actually true.

*Adjusting poverty estimates to take account of income/expenditure disparities*

Given that reported incomes may be unreliable indicators of people's actual standards of living, particularly at the lower end of the distribution, some researchers have suggested that we should use expenditure data as well as, or instead of, income data to gauge living standards. After all, if you want

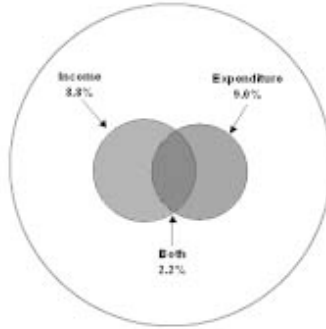
to know whether people are experiencing deprivation, it makes as much sense to look at the money that is going out of the household (that is, what they are consuming) as it does to look at the money they have coming in. Indeed, expenditure data may even provide a *more* reliable guide to living standards.

Eurostat (the EU statistical agency) suggested as long ago as 1990 that information on household expenditure 'better reflects the availability of both declared and undeclared resources of low-income groups' and is therefore a 'more satisfactory' indicator of 'permanent income'.<sup>64</sup> And in Australia, Garry Barrett, Thomas Crossley and Christopher Worswick have suggested that patterns of consumption, as revealed by ABS expenditure surveys, are a more reliable guide to long-term household living standards than are income data, which fluctuate much more widely.<sup>65</sup>

One problem in extending our use of measures to encompass expenditure as well as income, however, is that the income data and expenditure data seem to tell us very different stories, which makes it difficult to combine them into a composite indicator. The 'poor' who are identified by an income measure are not the same people as the 'poor' who are identified by an expenditure measure. Analysis of ABS data by Rob Bray has found that three-quarters of those who are defined as 'poor' on the basis of their reported incomes are not defined as 'poor' on the basis of their patterns of spending, and vice versa. Although 9% of the population claims to have an (equivalised) income below 50% of the median income, for example, only 2% also claim to spend less than 50% of the median expenditure level (see Figure 1).<sup>66</sup>

Using data on what people say they spend, rather than what they say they earn, also produces a very different picture of what has been happening to inequality over time. Harding and Greenwell report that expenditure data show no increase in inequality in Australia during the 1990s: 'It does not appear that there has been a clear increase in inequality . . . If we look just at trends from 1984 to

**Figure 1: Overlap between income poverty and expenditure poverty**



*Source:* R. Bray, 'Poverty Lines and Living Standards', Paper to the Department of Family & Community Services seminar on 'Hardship in Australia' (Sydney, 2 September 2002). Reproduced by kind permission of the author. Original data are from the 1998-99 ABS *Household Expenditure Survey*. Income and Expenditure 'poverty' lines defined as 50% median income/expenditure. Data is equalised (OECD scale) household 'Disposable Income' and 'Total Goods and Services Expenditure'. Results are presented as a proportion of the population—that is households have been weighted to reflect the number of usual residents.

1998-99, then the share of total current expenditure for each decile is almost exactly the same—and this is reflected in the Gini coefficient, which shows a statistically insignificant increase from 0.298 to 0.302.<sup>67</sup> Relying solely on ABS income data, however, this same NATSEM research team suggested in its report for *The Smith Family* that inequalities rose significantly during the last decade.

So which should we believe—the income data or the expenditure data? Of course, expenditure surveys, like income surveys, are far from perfect. The ABS suggests, for example, that respondents tend to underestimate the amount they spend on tobacco, alcohol and gambling.<sup>68</sup> Nevertheless, there is not the same incentive to falsify expenditure returns as there is for incomes, and evidence on people's spending may therefore give us a more reliable guide to their actual standard of living than what they say they earn.

At the very least, it seems reasonable to require of any serious poverty estimate that it should take account of spending as well as income data, for there is clearly something amiss with the income data, particularly at the lower end of the distribution. As NATSEM authors have themselves suggested: 'Any indicator of resources will be an imperfect measure of a person's standard of living . . . Ideally studies of poverty and deprivation should attempt to examine poverty using several indicators.'<sup>69</sup> This, however, has rarely been done, and it is disturbing that Australia's research community has for so long relied largely uncritically and almost exclusively on ABS income data despite their glaring and obvious flaws.

#### **Problem four: People who say they live on thin air (or less!)**

*The problem of ultra-low, zero and negative reported incomes*  
ABS income surveys have repeatedly found significant numbers of respondents reporting that they have no income at all—or even that they receive negative incomes. These surveys also include significant numbers of respondents claiming to have incomes below the minimum level they could receive from welfare benefits.

It is difficult to gauge how many of these responses may be valid and how many are likely to be erroneous. It is possible that some self-employed people go through weeks where they earn nothing or even make a loss, just as it is possible that some people forego income now in the hope of benefits in the future. Some of these findings could therefore be genuine. However, taken together, those claiming to have negative incomes, zero incomes or below benefit-level incomes make up a majority of the individuals in the bottom decile of the income distribution on the ABS figures, and it seems extremely unlikely that this many people are really in this situation at any one time. Quite simply, these findings look wrong.

This conclusion is reinforced when we look at evidence of the living standards being experienced by those at the lower end of the income distribution. Bray's research finds that 3.1% of the population scores positively on two or more of four 'hardship indicators' (going without heating, going without a meal, seeking help from a welfare agency or pawning or selling something to raise cash). If the income data were reliable, we would expect such extreme 'multiple hardship' to be concentrated in the bottom income bands, but it is not. While 7% of those in the bottom two deciles report multiple hardship, this accounts for less than half of all those reporting hardship of this magnitude. Furthermore, when we look only at those people who report zero or negative incomes, we find that *none* of them suffers multiple hardship!<sup>70</sup>

Until April 2002, few of the researchers using the ABS income statistics seem to have been particularly troubled by these glaring anomalies in their data sets. In preparing its 2001 report for The Smith Family, for example, NATSEM simply accepted all the zero incomes and below-benefit-level incomes at face value and included them in the computations of poverty and income inequality. Negative incomes were arbitrarily reset to zero before they too were included. When we questioned the validity of this procedure, the SPRC's Peter Saunders published a rebuttal of our arguments on The Smith Family website in which he dismissed our concerns about the income data as 'erroneous'.<sup>71</sup> Even when the problems were pointed out to them, therefore, the research community seemed loathe to question the validity of the data they were using. This may have been because the data gave them the sorts of findings they were predisposed to believe.

*The ABS admission that the data are wrong*

In April 2002, this complacency was suddenly blown apart by the publication of two devastating ABS reports.

The ABS had been getting uneasy about the quality of its income data for some time. In a 2001 report it compared

its survey income data with corresponding figures in the *Australian System of National Accounts* (ASNA) and found that the national accounts showed that Australians are earning more than they say they are when they answer ABS surveys. The report concluded that ABS surveys appeared to be generating an 'underestimation of income from investment and self-employment'.<sup>72</sup>

In late March and early April 2002, the bomb finally went off. The ABS published two items which suggested that its last five or six years' figures on poverty and inequality were flawed.

The first was an article published in the April edition of *Australian Economic Indicators*.<sup>73</sup> The article went largely unnoticed at first, but it made some rather worrying admissions.

- For a start, it admitted that ever since 1994-95, people interviewed about their incomes in ABS surveys had not been asked for documentary evidence like tax returns or pay slips. The result was that 'the quality of responses declined'—that is, people's reported incomes became less accurate.<sup>74</sup>
- The article went on to say that 'closer analysis' of the 1999-2000 SIHC income distribution statistics had raised 'a significant quality concern', and it suggested that the value of welfare transfers to the bottom 4% of the income distribution had been underestimated.<sup>75</sup> It seems that less well-off households have been under-reporting their incomes from welfare payments, and that the gap between lower and higher income groups has been exaggerated as a result.

The implications of these admissions became clear a week later when the ABS published *Measuring Australia's Progress*. This report identified 15 indicators of 'progress', one of which was the measure of 'economic disadvantage and inequality' that we encountered earlier in our discussion of poverty and inequality (see pp.18-19). What the report said about income distribution in Australia did not square with what previous studies using ABS data had been reporting.



The report said that relative income inequality had remained roughly constant since 1995: "There has been little change in the income gap between households."<sup>76</sup> But this is not what NATSEM had been saying in its reports based on ABS data, for these had been claiming that the relative income gap had been widening.

One reason why the ABS findings were so different from NATSEM's was that the ABS had recalculated the income statistics to try to remove some of the inaccuracies it had found in them. Its new version of the data showed that many people towards the bottom end of the income distribution were better off than had been thought.

Not all the inaccuracies in the ABS data could be corrected, however. In particular, there was nothing the ABS could do to rectify the fact that most of the individuals in the bottom 10% of reported incomes had told interviewers that they received less money each week than the income support system guarantees them. Reflecting on this evident anomaly, the ABS eventually concluded that it was highly suspicious, and it took the only course left open to it. It removed from its analysis *all* those people in the bottom 10% of reported incomes on the grounds that their answers were too unreliable to be used. As the report explained:

The lowest 10% have been excluded from the measure because of concerns with the fact that the extremely low incomes (close to nil and sometimes negative) recorded for some households in this group do not accurately reflect their living standards.<sup>77</sup>

It went on:

If households with very low recorded incomes had been included this would have substantially lowered the average income values in a way that gave a misleading impression of the economic wellbeing of the most disadvantaged households.<sup>78</sup>

*The reaction to the ABS admission in the social policy research community*

This was an extraordinary admission for the ABS to make, for it was effectively saying not only that research in future should not use these data, but also that any research done in the past that had used its data for the bottom decile of recorded incomes had been 'inaccurate' and 'misleading'. This admission vindicated what some of us had been saying for some time, but one has to ask why other research organisations which have worked intensively with these ABS data over such a long period were uncritical for so long about the quality of the material they were using. Indeed, as we noted above, rather than worrying about the obvious problems in the data, some researchers seemed more concerned to attack us for having drawn attention to them.

As late as March 2002, the SPRC's Peter Saunders was commissioned by The Smith Family to rebut our critique of their report on poverty (prepared by NATSEM using ABS income data). Saunders obliged by listing what he called 17 'technical errors and misrepresentations in the CIS report'. Two of these supposed errors involved our claim that 'the figures obtained from these ABS income surveys are so unreliable as to be virtually unusable' and that 'the ABS income data—especially at the lower end of the distribution—are unreliable'. Saunders authoritatively dismissed the first of these statements as 'an astounding claim' and replied to the second that 'there is no reliable research that supports the claim'.<sup>79</sup> Just weeks later, the ABS issued its warnings that the data on the bottom decile of the income distribution are indeed misleading and should not be used, thereby justifying everything we had said.

Even after the ABS issued its warnings, Australia's social policy research community seemed reluctant to admit that the data it had been using are unreliable. After the ABS released its April 2002 reports, for example, NATSEM re-issued a paper it had originally published in late 2001 based on ABS income and expenditure data and dealing with

inequality trends. But rather than following the ABS's lead, knocking out the bottom decile of reported incomes and recomputing all the earlier results, the paper simply reproduced the statistics from the original version, adding to the abstract a one-sentence disclaimer:

It has now emerged that these results can be regarded as only preliminary, as the ABS revealed in April this year that it has concerns about the accuracy of the data for low income families in the income and expenditure surveys.<sup>80</sup>

But NATSEM's results in this paper are not 'preliminary', they are wrong. With the ABS itself accepting that its data are unreliable, all the research that has been done using these data needs to be withdrawn and fundamentally re-worked, not re-issued with reluctant provisos stating that there may be a problem.

The lesson to be learned from this sorry tale is that Australia's research community needs to be much more vigilant and sceptical about data which appear to 'prove' what it is ideologically inclined to believe. Even when using the government's own statistics, we need to remember that all research is fallible, and even the ABS can make mistakes.<sup>81</sup> When errors are identified in the data, we should not try to hang on to earlier discredited findings, but should have the courage to admit the need for a re-evaluation. As Karl Popper taught us, science is about trying to find the falsehoods in hypotheses, not trying to save them against disconfirmation.<sup>82</sup>

## **Conclusion**

How extensive is relative poverty in Australia? We have seen that the lowest estimate, based on a half median income definition of the poverty line, is that around one in 12 Australians lives in poverty. Yet even this is clearly a gross over-estimate:

- Many people experience periods of financial hardship at one time or another in their lives, but far fewer experience

sustained poverty over a long period. Snapshot surveys thus exaggerate the scale of the problem by identifying as 'poor' people who are passing through a short-term period of financial stringency.

- Expenditure data suggest that many of those in the bottom 40% of the income distribution at any one time are much better off than their reported incomes imply. If living standards are measured according to what people spend rather than what they say they receive as income, there has been no increase in poverty over the last decade and the numbers in poverty turn out to be lower.
- Government services raise the relative incomes of the people at the lower end of the income distribution by nearly 50%, a much bigger proportionate increase than for those at the top. Taking account of the value of these services reduces the gap between high and low earners and therefore lowers the numbers in poverty.
- The ABS income data are unreliable and the ABS itself now advises that the statistics on the bottom decile should be disregarded altogether. If this advice is heeded, the numbers found to be in poverty will be substantially reduced.

In her initial article on the problems in the Australian poverty data, Helen Hughes 'guesstimated' that relative poverty encompasses no more than 5% of the population.<sup>83</sup> She was criticised for this by the SPRC's Peter Saunders who questioned her 'professionalism' and who even pointed to NATSEM's poverty report for The Smith Family as setting 'standards of professionalism' that Helen Hughes should seek to emulate.<sup>84</sup> The 5% figure was similarly ridiculed by social affairs journalists intent on maintaining the fiction that poverty rates in Australia are high and getting higher, and Hughes and other CIS authors were condemned for the 'lack of compassion' evident in our refusal to accept the inflated estimates that other researchers had been happy to endorse.<sup>85</sup>

It now seems that Hughes' original estimate was probably quite sensible. If we are going to keep referring to poverty as

if the word had any clear meaning, then an estimate of around 5% certainly seems a lot more credible than the estimates of 10%, 20% or more that one finds scattered through the Australian social policy literature. Hughes' figure is consistent with Bray's finding that only 3% of Australians suffer serious (that is, multiple) hardship and just over 3% report serious cashflow problems.<sup>86</sup> It is also consistent with findings reported by the SPRC's Peter Saunders that fewer than 6% of Australian families fall below the (extremely generous) consensual poverty line *and* claim to have insufficient income to get by on.<sup>87</sup>

Does any of this matter? When we first started questioning the sorts of poverty estimates being bandied around in the policy community, some people responded by suggesting that, even if we were right in what we were saying about the statistics, we were missing the real issue:

Whichever way you measure it, too many Australians are living in poverty . . . Inequality and poverty in Australia are preventing many families and individuals from fully participating in our society. (Andrew McCallum, President of ACOSS, Media Release, 17 January 2002)

We know that there are a lot of families and individuals living poor lives for whatever reason. Anyone can go out into the suburbs and towns and see people who are poor. (Colin Robinson of the Society of St Vincent de Paul, quoted in *The Catholic Weekly*, 17 January 2002)

A spokesperson for Uniting *Care* even went so far as to dismiss our arguments as 'absurd and offensive', adding that 'any level of poverty should be seen as unacceptable'.<sup>88</sup>

But the statistics do matter, and it is not offensive or absurd to seek to get them right. Insisting that we count people properly does not mean that we do not care about them. Indeed, exaggerating the poverty estimates does no favours to those who really do need help, for faulty statistics

are likely to result in misguided and poorly-designed policies. Empirical claims should be questioned if the evidence is not there to back them up. Showing compassion need not entail abandoning rationality.



Bruce Petty, *The Age*, 19 January 2002  
Reprinted with permission.

## The Myth of 'Social Exclusion'

Perhaps because the concept of 'poverty' has become so tarnished, and the evidence on poverty has become so confused, increasing numbers of researchers and policy advocates concerned with social deprivation have been re-branding their approach. The key concept which has emerged in this new discourse is 'social exclusion'.

Unlike poverty, which has an intuitive meaning for ordinary members of the public, the concept of social exclusion is generally unfamiliar. 'Poverty' is an everyday word which we all think we understand, but 'social exclusion' is a technical term used only by 'experts'. This means that claims made within the policy community about the nature and extent of 'social exclusion' can more easily be shielded from sceptical public scrutiny. Claim that a quarter of the population is 'poor' and you may well encounter some raised eyebrows from people who have their own ideas of what poverty really is; state that a quarter of the population is 'socially excluded' and few people will argue with you, for although it sounds bad, they are unlikely to know what it means.

We shall see in this chapter that 'social exclusion' is not the same as 'poverty', although the two words are often used in tandem. People can in principle be 'socially excluded' without necessarily being 'poor', although an inadequate standard of living is normally sufficient to qualify as one of

the 'excluded'. A low level of income is thus a sufficient criterion for social exclusion, but it is not a necessary one, for the language of social exclusion can be applied to cover many different aspects of 'deprivation'. People who are socially excluded are deemed to be 'marginal to society', but marginality can be cultural, social, technological or political—it need not be merely economic.

What we have here, then, is a new, vague but almost infinitely elastic concept which is increasingly being used to do the ideological work that the concept of poverty can no longer sustain. All the conceptual and empirical problems that attach to the idea of poverty, and which we have been outlining up until now, are being side-stepped by embracing a new concept which can mean almost anything and which can be applied to almost anybody. Evidence that people's incomes and living standards are higher than had been thought, or that everybody is getting better off as time goes on, no longer has to be answered; it can simply be brushed aside as the policy community embraces a new mantra of social exclusion in which such evidence is no longer damaging.

In this chapter we consider where this new concept came from, why it is being used so extensively, what it means, what claims are being made about it, and whether any of these claims stands up to empirical examination.

### **The origins of 'social exclusion'**

Poverty research traditionally focuses on people's material living standards (usually measured by their income) and works from there to find a minimum level at which a satisfactory style of life can be sustained. This is, for example, the logic of the SPRC's low income budget standard as well as the Henderson poverty line.

Work on 'social exclusion' goes in the opposite direction. It starts by identifying people whose lifestyles are said to be marginal or inadequate in some way, and it then investigates what level of income or other kind of support they need to



be given to put this right. Social exclusion, in other words, is about life *style* more than life *chances*, 'social participation' rather than simply 'economic wellbeing'.

*The focus on 'effective participation'*

This focus on lifestyle criteria of deprivation is not new. In 1969, the socialist academic Peter Townsend published an influential book, *Poverty in the United Kingdom*, which defined poverty as an income below that required to maintain an 'acceptable minimum' standard of living, and which operationalised this definition with reference to evidence on 'effective participation in society'. In plain language, Townsend said that 'poverty' meant having so few resources that you are prevented from doing things that most people think of as 'normal'. Armed with this definition, he estimated that 26% of the UK population was 'poor'.<sup>89</sup>

To find out what the 'normal' activities were in Britain at that time, Townsend asked a sample of the population about their diet, clothing, ownership of consumer durables, housing amenities, working conditions, health and education, environment, interaction with family and friends and recreational activities. He then selected 12 indicators (mainly behavioural ones like not having had a week's holiday away from home in the last year, not having eaten meat at least four times in the last week, or not having had a cooked breakfast most mornings) as the basis for what he called his 'deprivation index'. The higher somebody's score on this index, the more deprived they were defined as being.

Townsend found that people's scores on this 12-point index tended to increase as their incomes fell and low incomes correlated with an apparent inability to participate effectively in activities considered 'normal' in Britain at that time. He also suggested (somewhat unconvincingly) that a clear income threshold could be identified below which rates of participation in these activities fell markedly. This threshold defined his poverty line, which turned out to be some 40% higher than the official welfare benefits level.

*The focus on social marginality*

At the same time as Townsend was developing his work on social participation in Britain, René Lenoir, Secretary of State for Social Action in the Gaullist Chirac government in France, was reviewing the adequacy of his country's social insurance system. Lenoir discovered a heterogeneous stratum of people who were unprotected by social insurance, and he referred to them as *les exclus*, 'the excluded'. He estimated that they made up 10% of the French population. They included mentally and physically handicapped people, single parents, drug addicts, abused children, delinquents, the unemployed, immigrants, ethnic minorities, the suicidal and various other marginal groups.<sup>90</sup>

Lenoir's category of 'excluded' people was a ragbag concept which could in principle be expanded to encompass all sorts of 'social misfits'. Yet despite (or perhaps because of) its imprecision, its use gradually spread beyond France. By 1989, the European Council of Ministers had agreed on a strategy to counter social exclusion and to foster integration and 'social solidarity' right across the EU, although it is by no means clear that the Ministers knew what it was they had agreed to eradicate. In Britain, one of the Blair government's first initiatives when it came to power in 1997 was the establishment of a 'Social Exclusion Unit'. In Australia there have been suggestions that the federal government should emulate this example,<sup>91</sup> while the South Australian state government has set up a 'Social Inclusion Unit' within its Department of Premier and Cabinet.<sup>92</sup>

*How 'poverty' became 'social exclusion'*

In the Anglophone world, Lenoir's idea of social exclusion was easily incorporated within the existing research tradition on poverty, for there seemed to be an affinity between Lenoir's concern with people who are marginal to society and Townsend's concern with people who cannot participate in society. In both cases, we are dealing with a stratum of people who seem to be 'shut out' of mainstream social activity.

The result is that 'poverty' and 'social exclusion' have evolved in the Anglophone literature to become almost synonymous terms denoting a 'deprived lifestyle'. Not everybody who is 'socially excluded' is necessarily 'poor', but for most Australian researchers who use the term, the 'poor' are almost by definition 'socially excluded'.

### **How is 'social exclusion' different from 'poverty'?**

The effective elision of the concepts of poverty and social exclusion is not without irony, for Hilary Silver has shown that in their origins they are highly incompatible.

The concept of social exclusion is rooted in a tradition of French Republican thought which sees the core responsibility of government as the maintenance of national unity. Isolated individuals are a threat to national solidarity and social cohesion, for everybody must be integrated if the nation is to be strong. Viewed like this, government has a duty to incorporate all citizens within its inclusive embrace, and citizens in turn have a duty to participate fully in public life. It is therefore the national interest that dictates that *les exclus* should be brought in from the cold.

Silver notes that there is an inherent tension between the focus on 'exclusion' in this French republican tradition and the Anglophone concept of 'poverty'. The latter is rooted in a British tradition stretching back to the Elizabethan period and is strongly associated with liberal, utilitarian and Christian ideas about individual self-improvement and the role of private charity. In this tradition, the State is regarded more as a threat to liberty than as an expression of collective belonging. The policy concern with 'poverty' is the product of this individualistic Anglo culture while a concern with 'exclusion' is the product of a continental communalistic one.<sup>93</sup>

Given this tension, it seems strange that the idea of social exclusion should have spread so quickly from France into Britain and Australia where it has no pedigree or lineage. Those who use this new concept explain this by claiming it has theoretical advantages over the older idea of poverty. In

particular, they say, social exclusion forces us to recognise that social deprivation is multi-dimensional (that is, it involves more than simply a lack of material resources) and dynamic (that is, it is reproduced over time). The European Commission, for example, tells us that:

Exclusion goes beyond poverty. It is the accumulation and combination of several types of deprivation: lack of education, deteriorating health conditions, homelessness, loss of family support, non-participation in the regular life of society, and lack of job opportunities. Each type of deprivation increases the other types.<sup>94</sup>

This explanation for the popularity of the new concept is not, however, convincing. The recognition that deprivation is about more than money is not new (although it may have been overlooked by researchers in more recent times).<sup>95</sup> The American and British 'culture of poverty' theories of the 1960s emphasised that poverty has cultural and behavioural as well as financial dimensions,<sup>96</sup> and the English Poor Law commissioners were well aware of this way back in the 1830s.<sup>97</sup> We have also known for a long time that problems associated with deprivation are interdependent and mutually reinforcing, that pathologies tend to be cumulative, and that poverty can be transmitted down the generations (that it often 'runs in families'). The attractiveness of the concept of 'social exclusion' cannot therefore be explained by its emphasis on the multi-dimensionality and dynamism of deprivation, for there is nothing new in any of this.<sup>98</sup>

What is new (and for many in the policy community, what is also attractive) about the idea of 'social exclusion' is the implication built into the words themselves that we know what *causes* these problems. The core idea in the language of social exclusion is that people are being 'shut out' of something. People who are 'socially excluded' do not simply suffer multiple deprivation; they do so because this is *somebody else's fault than their own*.

To be excluded is to be the victim of somebody else's exercise of power, the word 'exclusion' entailing agency on the part of one party and victimhood on the part of another. It is this which has appealed to those in the policy community who have spent much of the last 20 or 30 years insisting that poverty is a 'structural' phenomenon and that policies which require the poor to change their behaviour are callously 'blaming the victim'. Once we stop talking about poverty and start using the language of social exclusion, this whole argument is put to bed for ever.

### **The politics of language**

The concepts we use influence the way we see the world. George Orwell recognised this in *1984* when he invented the totalitarian language of Newspeak:

It was intended that when Newspeak had been adopted once and for all and Oldspeak forgotten, a heretical thought should be literally unthinkable, at least so far as thought is dependent on words . . . This was done partly by invention of new words, but chiefly by eliminating undesirable words and by stripping such words as remained of unorthodox meanings . . . Newspeak was designed not to extend but to *diminish* the range of thought.<sup>99</sup>

Orwell understood that words are much more than labels for things; they tell us what things are like and how to respond to them.<sup>100</sup> If we can encourage other people to apply old concepts to situations where they never applied before (poverty to refer to income inequality, for example), or to use new concepts that we ourselves have invented (such as social exclusion), then we stand a good chance of influencing them to think about things in the way that we do. Those who control the vocabulary control the agenda.

The concept of social exclusion made a certain amount of literal sense in France in the 1970s where as many as 150,000 people who had not established eligibility for social

insurance payments were excluded by the government from receiving them. But it shed this meaning when it was transposed to an Australian context, for access to welfare support in Australia requires no prior financial contributions to establish eligibility, and the welfare system itself does not signify the sense of national unity and belonging which it has come to signify in France.

When Australians use the term 'social exclusion', it is not clear who is excluding whom from what, but what is being implied is that somebody is to blame, and that it is not the poor themselves.

### **Taking 'social exclusion' seriously**

If we are to make any sense of this concept, we need to clarify three basic questions: what are people being excluded from?; who are they?; and who is responsible?

#### *What are people excluded from?*

Given that no long-term resident of Australia is excluded from access to the government welfare system, what is it that people are said to be excluded from? The answer given by those who use this term is 'participation in society'.

In this new discourse, 'social exclusion' (Lenoir's focus) and 'social participation' (Townsend's focus) constitute a binary opposition. If you are 'socially excluded', it means you cannot 'participate' effectively in society—the two concepts are always linked:

[P]eople who are long term recipients of benefits tend to be *excluded from participation* in the economic life of the community [and] also tend to become isolated from social institutions. (Mission Australia, emphasis added)

Social *exclusion* refers to a situation in which individuals or communities are subject to multiple forms of disadvantage such that they cease to be full citizens and are *unable to participate* in the economic,

social, cultural and political dimensions of society.  
(The Smith Family, emphasis added)

[There is] a damaging fault line across our community, with those on the wrong side *excluded* not only from the 'good things of life', but often from the very life of the community itself. It forms a barrier that severely *reduces their capacity to participate* socially and economically. (Australian Council of Social Services [ACOSS], emphasis added)

*Economic and social participation* can reduce the *risk of exclusion* for individuals . . . Widespread economic and social *participation* contributes to social cohesion. (McClure Report on welfare reform, emphasis added)<sup>101</sup>

'Social exclusion', then, entails an inability to participate across a wide range of social activities. But this just raises the question of what kinds of activities people are prevented from participating in.

This is where things start to get very confused. Because the definition of social exclusion is so loose, nobody can agree on how to distinguish empirically between people who are excluded and those who are not. In Britain, no fewer than three different attempts to measure social exclusion appeared within just two years, and between them they identified around 100 different indicators for identifying the 'normal' life from which deprived people were said to be 'excluded'.<sup>102</sup>

In Australia, the idea that exclusion entails an inability to do what is 'normal' has encouraged social policy researchers to extend it into all sorts of new directions. Gianni Zappala and his colleagues at The Smith Family, for example, have suggested that people who lack IT access and skills are in danger of being excluded by an emerging 'digital divide'.<sup>103</sup> Michael Bittman of the SPRC suggests that people may be 'excluded' by shortage of time and that people who are too busy to spend time on 'normal' activities like working

in the garden are 'socially excluded', even if they enjoy an adequate income. This of course brings a whole new set of people into the category of the 'socially excluded' (it encompasses most parents with young children, for example), which then opens the way for Bittman to call for more government spending on parental leave and increased government regulation of working hours to combat growing rates of 'exclusion'.<sup>104</sup>

So vague are researchers when it comes to defining 'normal' forms of social participation that the term 'social exclusion' routinely gets used to advance literally incredible claims. In the quotations cited earlier, for example, The Smith Family states that 'excluded' people are 'unable to participate in the economic, social, cultural and political dimensions of society', but if this rhetoric were really taken seriously, it would require us to believe that a large chunk of the Australian population never goes to the shops, never speaks to anybody, never watches television and never votes. Similarly, the extract from ACOSS suggests that large numbers of people are shut out of 'the very life of the community itself', which could only literally be true if several million people had been locked away beyond the reach of family, friends and neighbours.

Clearly, these organisations (and many others like them) do not actually mean what they are saying—the emotive language of 'exclusion' is routinely being used unthinkingly. Statements like these are, however, rarely challenged. We have all become so habituated to the language that we accept claims even when they defy commonsense.

#### *Who is being 'excluded'?*

Michael Bittman is one of the few users of the concept of social exclusion to make explicit what is usually left implicit—that the term contains an assumption about causation, power and responsibility. As he puts it: 'The concept of social exclusion emphasises agency and process. Social exclusion is an act, something that one social grouping



does to another.'<sup>105</sup> So who are the victims of this exercise of power?

It turns out that almost anybody can be a victim. There are plausibility limits to the numbers of people who can be defined as 'poor', but switching to the concept of social exclusion enables researchers to escape even these constraints.

One review of the literature finds that groups identified as 'socially excluded' have included the long-term unemployed, those in precarious jobs, the low-paid, the poor, school drop-outs, the mentally and physically disabled, addicts of various descriptions, delinquents and criminals, single parents, abused children, those who grew up in problem households, young people without work experience or qualifications, women, foreigners and immigrants, ethnic and religious minorities, people on social assistance, people eligible for social assistance but not receiving it, residents of disreputable neighbourhoods, the downwardly mobile and people who are isolated from friends or family.<sup>106</sup>

The point about a list like this is not simply that it is conceptually chaotic; it is that it can cover most of the population. Reviewing this list, David Gordon concludes that the only person in the UK who could not be defined as 'socially excluded' is Prince Philip (the Queen qualifies as a female; Princess Diana would have been eligible several times over as a female lone parent with mental health problems). In fact on some definitions, even Prince Philip qualifies.

According to Anthony Giddens, for example, the concept of social exclusion covers privileged people as well as deprived ones. Britain's leading sociologist and erstwhile adviser to Tony Blair on 'the Third Way', Giddens insists that social exclusion occurs at the top as well as the bottom of society as privileged groups withdraw from participation in mainstream interaction and shut themselves off from everybody else.<sup>107</sup> This usage of the term echoes the traditional French concern to enforce inclusivity, for it is grounded in the belief that everybody must belong, all must

participate, none must be excluded or be permitted to exclude themselves.

In Australia, Giddens' usage has been seized upon by socialists to reinforce their longstanding antipathy to private education, private health care and private property rights in general. As the SPRC's Peter Saunders explained in a newspaper article:

At the top end, people choose to exclude themselves from the broader community by only using private schools, private hospitals, private estates and even private security.<sup>108</sup>

The implication is clear: to combat social exclusion, everyone must be required to use the same government services, and nobody can be allowed to escape to something better. So it is that the policy community comes to oppose school choice in the name of ending social exclusion.

#### *Who is doing the excluding?*

With all these victims, who are the perpetrators? As we noted earlier, the concept of 'social exclusion' generally rules out the possibility that some people might bring their fates upon themselves (the rich are an exception). What Lucy Sullivan has called 'behavioural poverty'<sup>109</sup> is defined out of existence at the outset, for exclusion is something that happens to you, not something you make happen. Even if you make a conscious decision to truant from school, quit your job, take heroin, have a baby without a partner to help raise it, burgle somebody's house or set out on any of the other paths that qualify you as 'socially excluded', it is always going to be somebody else's fault, for the language of social exclusion is expressed in the passive voice.

George Megalogenis exemplifies this way of thinking: 'The disadvantaged . . . are the ultimate outsiders of society. They don't bother looking for a job because they suffer a mental illness, a physical disability, a drug problem, live in a depressed region or are black.'<sup>110</sup> Leaving aside the

extraordinary notion that being black might prevent people from being able to look for work, this comment is interesting for the way it manages to treat the outcomes of people's behaviour, such as drug addiction, as if they were the social causes of their problem. To identify somebody as 'poor' is to leave open the question of responsibility and fault; to identify them as 'excluded' is to pre-empt it.

So who is to blame for excluding people? The familiar culprits are in the frame—the government, higher income earners and 'society' in general.

In its last two Budget Statements, ACOSS has targeted all three. It spells out a programme for combating 'social exclusion' which requires a radical policy of income redistribution to be pursued through changes in the tax and benefits system. 'Closing these inequality gaps', it says, 'must be our top priority as a nation.'<sup>111</sup> ACOSS wants to tackle 'social exclusion' by diverting an extra \$6 billion to 'excluded' groups (among other things, this would pay for a big hike in the value of welfare allowances to bring them up to the level of pension payments). This is to be funded by tax increases on higher earners (a group which ACOSS appears to define as anyone in the top 20% of taxpayers with an income above \$50,000 a year).<sup>112</sup>

This raid on people's earned incomes is justified in the name of 'fairness', for not only are 'large numbers . . . locked out' from the advantages that 'some of us are able to share', but higher income earners are enjoying 'unfair tax breaks' and 'unfair tax deductions'.<sup>113</sup> The 'exclusion' of those at the bottom is thought to be exacerbated by the social irresponsibility of those higher up the income distribution. The middle classes are said to have been using 'aggressive and sophisticated income tax avoidance schemes' to get around their 'obligation' to surrender nearly half of every extra dollar they earn to the government, and the government has been colluding with them by 'deliberately avoiding' taking action against them.<sup>114</sup> The guilty parties are therefore plain to see.

In light of all this unfairness, aggression and dishonesty on the part of higher rate taxpayers and the government, ACOSS thinks we must 'change the distributional direction of tax and spending policy', something we should try to achieve 'cooperatively and collaboratively'.<sup>115</sup> An 'inclusive' society requires not only that those at the bottom take more, but that those at the top hold onto less. Higher earners have more than their share already, and they must give up their 'unfair' shares to other people less fortunate. An unwillingness to do so is a sign of their unwillingness to 'participate'—and as we have already seen, everybody from the top to the bottom of the society is required to 'participate' to overcome social exclusion.

In the new politics of social inclusion, therefore, everybody is expected to put in what others expect of them and to take out what they think they need. Guilt is the motive for the donors, envy the motive of the recipients.<sup>116</sup> We have been here before. Last time around it was called socialism.

### **Does 'social exclusion' exist?**

Perhaps the most extraordinary thing about the widespread usage of the concept of social exclusion today is that, when social scientists in Australia have tried to test some of the core assumptions on which the idea is based, they have found no evidence to support them. It proves impossible to identify any threshold which separates those who 'participate' from those who are 'excluded', and the claim that there is a deprived stratum of people who cannot participate effectively in social life turns out to be empirically untrue. Social exclusion is an empty concept. It refers to a problem that does not exist.

The most significant empirical investigation of 'social exclusion' in Australia was carried out by a former President of ACOSS, Peter Travers, together with Sue Richardson, almost ten years ago.<sup>117</sup> Like Peter Townsend before them, they developed a 12-item index of 'social participation', but

unlike Townsend, they found that people's scores on this index correlated only very weakly with their incomes. Indicators like playing or watching sport, going to a pub or club, visiting friends and being able to call on support when it is needed showed virtually no association at all with income, and there was no evidence that those on the lowest incomes were in any sense 'shut out' of the normal life of the community. Nor could the authors detect any threshold income that distinguished those who can participate effectively in their society from those who cannot. They concluded:

The relationships we have examined between material wellbeing and social participation all suggest that, for Australia, it would be too strong a statement to say that low levels of material resources *exclude* the poor from participation in normal social activities . . . We could not detect a threshold of income below which social activities fell away so markedly that one could speak of 'exclusion'.<sup>118</sup>

Rob Bray's more recent analysis of ABS data points in much the same direction. He measures what he calls 'missing out' on a six-item scale scored by whether people have friends come for a meal once a month, have a special meal once a week, buy new or second-hand clothing, pursue a hobby or leisure interest, take an annual holiday away from home, and have a night out once a fortnight. He found that 22% of the population scored on two or more of these items, but these non-participants were spread across all income groups. While 39% of the bottom income quintile were 'missing out' on two or more items, so too were 34% of the second quintile and 22% of the third. It is difficult to find clear evidence of a socially excluded stratum when studies find that a majority of the population may be 'missing out', although sole parent families (51% of whom 'missed out' on two or more activities) do appear to stand out from the rest.<sup>119</sup>

Similar results have also been reported for the UK. Tania Burchardt measured social exclusion on four dimensions (income, economic activity, political engagement and social isolation) over a five year period and found 'no evidence of a group of individuals cut off from the principal activities of mainstream society over an extended period of time. Social exclusion in the sense of an underclass is not an empirically useful concept.'<sup>120</sup>

Yet despite findings like these, researchers and pundits continue to use the term 'social exclusion' as if this research had never been done. This is a concept which has become so deeply embedded in social policy discourse that it seems to be immune to empirical disconfirmation.

## **Conclusion**

The term 'social exclusion' is French in origin, and it derives from a peculiarly continental tradition of thinking about citizenship and the requirements for national unity. In the course of its migration into Australian policy discourse over the last 20 years, it has shed much of this theoretical underpinning, and it has been adapted to fit the specifically Anglophone tradition of research and thinking on relative poverty. The result is a chaotic concept that is now almost totally devoid of any agreed meaning.

The concept does, however, play an important ideological role in contemporary policy debate. Because the concept of 'poverty' is so devalued (and the measurement of poverty is so arbitrary), the policy community has shifted focus to a new concept whose meaning is inherently vague and whose 'multidimensionality' makes it almost impossible to measure. Poverty is primarily about living standards, so in principle it should be possible to measure it by looking at people's incomes, expenditure, assets, or whatever. But 'social exclusion' encompasses cultural, political and even psychological dimensions, in addition to economic wellbeing, and this means that almost anybody can qualify. If you are not a victim on one dimension, you can almost

certainly become a victim on another. There are therefore no obvious limits to the potential size of the 'excluded' population, which means there are no limits to the policies which can be advocated as necessary for overcoming it.

We have seen in this chapter that the language in which social policy is being developed is not neutral. Concepts like social exclusion enable policy professionals to construct and sustain some interpretations of reality while closing others off. Intellectual gatekeepers in strategic institutions like universities, the media and government departments play a crucial role, for when they decide to use one kind of terminology rather than another, they structure debates and demarcate policy agendas. Sooner or later, the rest of us follow suit, and before long, the new terminology takes on an intellectual life of its own. We start to use it unthinkingly and we no longer pause to assess whether what we are saying is really true, or even if it makes sense. Our concepts assume a power over our minds, influencing and shaping the way we understand our society, and influencing the policies we develop to change it, and we remain largely unaware that this is even happening.<sup>121</sup>

The widespread use of a concept like social exclusion is misleading us about the nature of the problems we face as well as their causes. The language of exclusion leads us to see problems that are not there, to lay blame where it does not belong, and to advocate solutions which are more likely to undermine self-reliance than to encourage it. The results are likely to be policies which are at best ineffective and at worst disastrous.

## Redistribution or Self-Help?

**T**here are basically two ways in which we might try to improve the situation of people whom we might recognise as 'poor'. One—the redistribution strategy—is to direct more resources their way by increasing the value of the cash benefits they can claim, or by providing them with greater access to 'free' government services. This was the logic pursued through most of the 20th century in the emergence and growth of the Western welfare states, and it is, in a sense, the most 'obvious' solution to poverty. After all, if somebody is deprived of something, the simplest and quickest way of relieving their plight is to give them what they seem to lack.

The alternative way of addressing the problem—the self-help strategy—is to help and/or require those in need to get into a position where they can resolve their own problems through their own efforts. This is the logic behind some of the welfare reforms that have been introduced in Australia, the US and Britain over the last few years (in Australia it is expressed in the idea of 'mutual obligation'). This approach starts by asking why some people are in a situation where they require support from others, and it identifies the pathways—educational failure, single parenthood, substance abuse, disability, or whatever—that lead them into 'poverty' and eventual welfare dependency. Its interventions then



focus on changing where possible the causes of deprivation rather than treating the outcomes—for example, by changing individuals' self-destructive behaviour rather than (or in addition to) compensating for the results of their behaviour through financial transfers.

### **The advantages of self-help**

The self-help strategy has two key advantages over the redistribution strategy. One is that it seeks to solve the problems of the poor without confiscating other people's money in the process. As we shall see later in this chapter when we consider the ethics of egalitarianism, self-help may be a 'fairer' and more 'just' solution than redistribution.

The other crucial advantage is that self-help avoids creating a relationship of dependency between recipients and donors. In the long run, self-help enhances people's own capacity for action while transfers of aid or largesse mainly empower those who hand out the cash. Again, this is a proposition to which we shall return later.

### **The social policy profession's opposition to self-help**

Despite these advantageous features of a self-help strategy for tackling poverty, the social policy community in Australia does not care much for it. They generally dismiss it as an approach that belongs to the 19th century rather than the 21st.

#### *Blaming the victim?*

Most social policy intellectuals and activists are convinced that poverty is mainly a 'structural' problem and that poor people are rarely, if ever, responsible for their own plight. The presumption is that the poor and disadvantaged are victims of the social and economic system in which they live rather than the authors of their own fate. A self-help strategy is therefore seen as unfair and callous, for if people are not to blame for their plight, the assumption is that they should not be expected to do anything themselves to put it right.

Such sentiments, while readily understandable, are dangerous, and they are more likely to perpetuate poverty than to resolve it. There are two major faults in this way of thinking.

The first is that it confuses the question of *responsibility* with the issue of *blame*. Even if all those who suffer disadvantage were to turn out to be victims of circumstances beyond their control, it still would not follow that the best strategy for helping them would be to absolve them of all responsibility for getting their lives back on track. As 19th century liberals recognised (and as generations of poor migrants have understood), the surest route out of poverty lies in the determination to improve one's own situation, irrespective of how it came about or the size of the obstacles to be overcome.

What our social policy intellectuals fail to appreciate is that we do not have to attach blame to individuals in order to urge them to take on the responsibility for improving their lives. As David Green argues:

We need to renew our faith in the capacity of people to overcome adversity . . . Earlier reformers attributed personal responsibility to individuals, but they did not see personal responsibility as synonymous with blame. They focused on responsibility—on character—because it offered the most certain escape from poverty and dependency for most people. They did not claim that individuals were always responsible—let alone to blame—for their predicament. They knew full well that there are many events and brute facts beyond the control of any one person, or indeed of any organised community. But the human condition was to be blessed with powers of judgement and reason, and we could only lead a full life if we made use of our capacities. All should strive to make the most of their circumstances.<sup>122</sup>

Green goes on to quote Jesse Jackson who once told his black followers in America: 'If a white man knocks you down, it's his fault; if you don't get up, it's yours.'<sup>123</sup>

The second problem in contemporary social policy thinking lies in the refusal of many researchers and practitioners to acknowledge that some people really do bring their own misfortunes upon themselves.

For example, it is clear (despite all the social policy community's protestations to the contrary) that some people lack employment largely because they do not want to work. Recent research by the Centre for Analysis for Social Exclusion in London found that between 10-20% of those without jobs in Britain are voluntarily unemployed.<sup>124</sup> In Australia, there are organisations which give advice to welfare claimants on how to avoid work obligations<sup>125</sup> and qualitative research has found that some young unemployed people are content to remain on welfare and see nothing wrong in claiming benefits while avoiding employment.<sup>126</sup>

A recent Productivity Commission report<sup>127</sup> provides quantitative support for these findings, for it tells us that only 38% of welfare claimants who were called for Job Search Training in 1999 actually started the programme. The rest left the welfare system of their own accord rather than face the obligation to undergo work training.

Despite evidence like this, the orthodox belief among Australia's social policy researchers and advocates is still that virtually all those without jobs are victims. They want to work but cannot find suitable employment due to the effects of 'globalisation' and 'economic rationalism'. Any attempt to draw a distinction between those who genuinely want to help themselves and those who are merely malingering is firmly rejected as ideological and uncaring, for the tenaciously-defended assumption is that virtually everybody is in the first group and none are in the second.<sup>128</sup>

*Mutual obligation*

Because they are so concerned not to 'blame the victim', and because they refuse to accept that some 'disadvantage' may be the product of people's own voluntary choices, most members of Australia's social policy community feel uncomfortable with policies that require people to work as a condition of getting welfare. They believe that the basic task of social policy is to give people money rather than require them to develop self-reliance by finding and keeping employment, and they are unhappy with any attempt to tie receipt of aid to work conditions.<sup>129</sup> They argue that poor people need support to prepare them for entering the labour market but should not be cajoled or compelled to take jobs or training,<sup>130</sup> and they are generally dismissive of the value of unskilled or temporary work, resisting the idea that those without jobs might be expected to accept boring, low-paid 'leaf raking and whipper-snipping jobs'.<sup>131</sup>

This way of thinking does not reject the self-help strategy out of hand. Most social policy intellectuals are willing to endorse the principle of 'mutual obligation', but their main emphasis is placed on the obligations owed *to* welfare recipients by the government or by 'society' in general.<sup>132</sup> They support those aspects of a 'mutual obligation' approach that require government to spend more on things like training (to prepare those without work with the skills they are thought to require before looking for employment), job search (to help them find employment once they have adequate skills) and childcare (to help single parents who want to work get back into employment), but they do not generally favour imposing compulsory work requirements on recipients, and they are highly critical when the authorities penalise claimants who persistently breach the conditions of their benefits by failing to turn up for training, or by failing to apply for the jobs for which they have so painstakingly been prepared.<sup>133</sup>

The recommendations for reducing or eliminating 'poverty' that come from Australia's social policy community

thus pay lip-service to the principle of personal responsibility and self-help, but this is then hedged around by so many riders, qualifications and exemptions that it becomes toothless. They are more comfortable arguing from within the alternative paradigm of income redistribution.

### **The social policy profession's support for redistribution**

The alternative and more favoured strategy is a very familiar one. Basically, it involves taking money away from more affluent people and giving it to less affluent ones. The way this is done is by increased government spending on public services, higher taxes on higher earners, and enhanced levels of welfare support for those lower down the income distribution. We saw one example of this approach in Chapter Three when we reviewed the proposals in the last two ACOSS Budget Statements which demanded an extra \$6 billion of government spending, increased taxation on higher income groups, and a generous rise in welfare benefits. Recent work coming out of the SPRC has taken an even stronger line, and most welfare organisations and poverty academics seem happy to align themselves with these sorts of proposals.<sup>134</sup>

One reason why social policy intellectuals so strongly support a redistribution strategy seems to be that they are offended by affluence almost as much as by poverty. They think it is a 'problem' when rich people get richer, just as it is a problem if poorer people stay 'poor', and they believe it is therefore only right that the government should do something to 'rectify' both of these unwelcome trends.

A strategy which aims to help poorer people attain self-reliance does nothing to reduce the affluence at the other end of the income scale. It is therefore unattractive to social policy intellectuals who are looking for initiatives that will aim simultaneously at both targets. Redistribution fits the

bill nicely, for it not only promises to reduce 'poverty' by increasing the incomes of those at the bottom, but it also helps reduce inequality, by cutting into the incomes of those at the top. The result is a narrowing in the so-called 'income gap', which is what most social policy intellectuals and activists are intent on achieving.<sup>135</sup>

If they are pushed to defend this commitment to egalitarian redistribution (and they very seldom are), the policy community tends to justify its position with three kinds of answers:

- One appeals to *history*—a policy of equalising incomes is said to be consistent with a distinctively Australian tradition of popular culture epitomised by the cliché of the 'fair go'.
- A second appeals to *morality*—equalising people's incomes is said to be a 'fair' and 'just' policy while acceptance of wide inequalities of income is criticised as immoral and unjust.
- A third appeals to *sociology*—a society characterised by wide differences in people's incomes is said to be divisive and susceptible to conflict and social fragmentation.

All three of these arguments are commonly heard. None of them stands up to detailed scrutiny.

### **The historical argument: Redistribution and egalitarianism in Australian popular culture**

Support for a redistributionist strategy rather than a self-help one is commonly justified by social policy intellectuals with reference to Australia's longstanding commitment to egalitarianism.

#### *A 'fair go'*

According to historian Elaine Thompson: 'Australia has had strong egalitarian impulses throughout most of the last 200 years, which have made it distinctive . . . egalitarianism has shaped our democratic institutions, our definition of democracy and our definition of ourselves'.<sup>136</sup> The

implication which many policy professionals take from this is that their support for equalisation of incomes is giving expression to popular tradition and sentiment. Ross Garnaut has even suggested that, 'No important policy change is feasible if it violates broadly supported conceptions of equity.'<sup>137</sup>

But is this true? The distribution of incomes in Australia has never been particularly equal and welfare spending was kept at very low levels by international standards right up until the 1970s. Popular egalitarian sentiment over most of the last 200 years in Australia therefore seems to have had little impact with regards to tax and welfare policies. This is probably because historically, the appeal of the principle of equality and a 'fair go' had more to do with the idea of equal *rights* (everybody should be subject to the same rules) and equal *status* (no individual is more worthy than any other) than with support for equal wealth or incomes.<sup>138</sup>

The sentiment of equality of rights and status is entirely consistent with a self-help philosophy. In policy terms it was expressed in the early years of the last century, not in an extensive welfare state or a regime of high taxation, but in the tradition of the family wage—the idea that all working men should be in a position to support their own families from their own wage packet. Until quite recently, the ideal of a 'fair go' meant not that people's incomes should be reallocated to make them more equal, but that everyone who worked should be able to look after themselves and their family as a result of their own efforts. A 'fair go' meant that workers should receive a decent wage; it did not mean that those who chose not to work should be able to live off the earnings of those who did.

Understood in this way, the authentic Australian tradition of egalitarianism seems more in tune with a self-help ethic than with a redistributionist one. It is only in recent decades that widespread reliance on welfare benefits has come to be construed as consistent with a distinctive and authentic Australian political culture.<sup>139</sup>

*Taxes, income redistribution and welfare spending*

Egalitarian economic policies require high levels of taxation. In Scandinavia, for example, a relatively flat income distribution has been achieved through a steeply progressive tax system funding high levels of government spending.

There is no evidence that Australians have the stomach for such policies. In Australia, indeed, there is a remarkable lack of support for social programmes requiring higher taxation, and survey evidence shows no serious support for the sort of tax rises which are favoured by those who advocate a radical redistribution strategy. Even the SPRC's Peter Saunders admits that in recent years 'support for lower taxes has outstripped support for higher spending by a factor of more than three to one'.<sup>140</sup>

In a public opinion poll at the time of the 2001 federal election, twice as many people expressed an unprompted desire to reduce taxes than wanted to tackle inequality, and when respondents were asked what the federal government could do that would most benefit them and their families, tax changes—not redistribution—dominated people's answers.<sup>141</sup>

Having said that, there is evidence of popular support for certain kinds of government welfare spending. In the same 2001 survey, respondents were asked to name the three most important things the government should be doing something about, and social welfare provision (particularly in the form of help for the aged) loomed large in their unprompted answers (it was the third most common answer, mentioned by 23% of respondents).

There are two points to say about this. The first is that public support for welfare policies should not be confused with support for egalitarianism (greater equality ranked 18th in the public's list of priorities, mentioned by just 2% of respondents). Willingness to help those who are thought to be in need does not indicate enthusiasm for a general programme of income redistribution.



The second point is that, while saying they support certain aspects of welfare spending, Australians seem reluctant to put their money where their mouths are. Surveys have repeatedly found widespread support for government welfare programmes is coupled with equally widespread resistance to the levels of taxation that are needed to finance them. In a review of these findings, Simon Blount shows that some 70% of people tell researchers that they 'agree' or 'strongly agree' with the government spending money to reduce 'poverty', but only a quarter opt for increased spending on social services when given a choice between that and lower taxes.<sup>142</sup>

### *The politics of envy*

It is not even clear that popular support for helping those thought to be 'in need' is as strong as we might imagine. In another recent public opinion survey published in *The Australian* newspaper in 2000, respondents were given the choice between reducing the gap between rich and poor or making everybody (including the poor) better off. Some 70% went for the first option and only 28% for the second.<sup>143</sup> It seems most Australians would rather pull down the living standards of the rich than improve the incomes of the poor.

This does suggest some visceral support for the idea of income redistribution but the motives appear rather unedifying. Given that they dislike the idea of being taxed themselves, it seems that a substantial proportion of the population is nevertheless happy to countenance the idea of other people being taxed instead. Simon Blount's review of recent surveys confirms that around 50% of the population favours the idea of redistributing incomes, but given their resistance to tax rises, we can only assume that the redistribution they favour is one where they believe they will not themselves lose out (indeed, they may even think they will personally benefit).

To the extent that there is public support for redistributionist policies, it appears to derive, not from any high-minded set of moral principles about a 'fair go', but

from pragmatic calculations of self-interest. People favour redistribution when they think that they will gain and that others will have to pick up the tab. And given that egalitarian policies are likely to favour at least half the population, it is perhaps not surprising that half the population say they favour them.

If we are right, then what the social policy intellectuals are celebrating when they refer to Australia's tradition of robust egalitarianism is not so much a popular commitment to the principles of 'social justice' (as they fondly imagine) as a rather mean-spirited envy of those who are better-off. According to Sam Brittan, 'The acid test of whether or not those who protest about inequality are moved by jealousy and envy is whether their concern is with the plight of the poor or the wealth of the rich.'<sup>144</sup> *The Australian* survey suggests that many of those who favour redistribution are more concerned to clobber the rich than to help the poor, which suggests that envy, not justice, is what stirs their passions.

*Public opinion and the social policy intellectuals*

The SPRC's Peter Saunders believes that egalitarian instincts in this country are still strong, but that most Australians are misinformed about how unequal the country has become. In his view, more people would be in favour of paying higher taxes to bring about greater equality if only they knew just how unequal the existing distribution of incomes really is.<sup>145</sup>

This is an ingenious interpretation of the attitudinal evidence designed to make it consistent with a redistributionist policy agenda, but it does not square with a key piece of evidence. While it is true that many Australians are misinformed about income distribution, their ignorance leads them to *exaggerate* the degree of income inequality rather than underestimate it.

In Chapter Two we introduced an important ABS report which shows that the relative gap between higher and lower income groups has remained more-or-less constant since the mid-1990s: 'The real income of low income households

increased through the period 1994-95 to 1997-98 at a similar rate to that for households in higher income groups . . . there has been little change in the income gap between households.'<sup>146</sup> Yet despite this evidence, *The Australian* 2000 survey found that 83% of Australians still believe that 'the rich are getting richer and the poor are getting poorer'.<sup>147</sup>

Evidence like this makes Saunders' thesis look quite implausible, for if more than four in five Australians (wrongly) believe that the relative income gap between rich and poor is widening, it makes no sense to argue that they would favour more redistribution if only they knew how unequal things really are.

It is worth reflecting on why so many people wrongly believe that income inequality is widening. One factor is probably that this is what Australia's social policy community keeps telling them. Even after the ABS released its crucial report stating that inequalities remained unchanged in the latter years of the 1990s, social policy 'experts' continued making the same, discredited claims, almost as if the report had never been published:

The gap between rich and poor is also widening. At the same time as the poor are becoming more numerous the rich are becoming richer. (Megan Mitchell, ACOSS, July 2002)

Those at the other end of the scale are getting even richer and the gap between the rich and the poor is getting bigger and the gap in the middle is shrinking . . . Those that want to justify the present set of circumstances will say the poor are not getting poorer in real terms. But in relative terms they *are* getting poorer and the gap *is* getting wider. (Noel Preston, Uniting *Care* Centre for Social Justice, July 2002)<sup>148</sup>

It is little wonder that more than four in five Australians believe that the rich have been gaining at the expense of the poor, for this is what they continually get told by our intellectuals and opinion leaders.

### **The ethical argument: The morality of redistribution**

For most egalitarians, including many members of Australia's social policy community, greater equalisation of income and wealth needs no justification—it is a moral end in itself. Wide disparities between 'rich' and 'poor' are deemed to be 'unjust', and because they see politics as about rectifying social injustice, it is felt that there is a compelling case for seizing resources from the first group and reallocating them to the second.

Sentiments like these are not limited to left-wing intellectuals, but strike a chord in many of us. There is something that feels instinctively 'right' and 'moral' about sharing incomes and wealth more equally, and the existence of economic inequality seems to offend us. As Pamela Bone said in a critique of our work: 'Most people . . . feel it [inequality] is morally wrong (perhaps they learned something at Sunday school about camels and eyes of needles).'<sup>149</sup>

There is nothing inherently 'wrong' with these egalitarian sentiments. Many people of goodwill feel passionately about equality, and there is a distinguished history of moral philosophy, culminating in John Rawls' *Theory of Justice*, which has sought to defend and refine it.<sup>150</sup> But what the social policy community so rarely recognises or understands is that egalitarian ethics are not self-evidently 'right' either. There are other moral positions, just as lucid and just as compelling, which hold that redistribution to bring about equality is the antithesis of 'social justice' and fairness. These positions too attract the passionate endorsement of decent people of goodwill, yet they require us to recognise that egalitarian redistribution of people's incomes is profoundly unjust and a negation of 'progress'.<sup>151</sup>

One challenge to egalitarianism is represented by the liberal ethic expressed most clearly in the moral philosophy of Robert Nozick.<sup>152</sup> Nozick is one of Rawls' greatest critics. For him, the test of 'social justice' lies not in the way incomes are distributed, but in how this distribution comes about

in the first place. Provided people come by resources 'justly' (for example, they do not steal them), they are morally entitled to keep them.

According to Nozick, the egalitarian position might make sense if resources were lying around in a great big pot and we faced the problem of how they should be shared out (this is effectively what Rawls assumes in his 'original position'). But this is not how things are in reality. In the real world, people come by resources because they work and save and take risks and make sacrifices to get them. Resources, in other words, have entitlements attached to them as a result of prior human actions. The Rawlsian question of how they 'should' be allocated is therefore irrelevant, and any egalitarian policy will be highly 'unethical' and 'unjust' if it tries to take away from people that which is already rightfully theirs (this is why we suggested at the start of this chapter that a redistributionist strategy may turn out to be less 'fair' and less 'just' than a self-help one).

The other major ethical position challenging egalitarianism is grounded in a belief in 'meritocracy'. This holds that people should be rewarded for their talents and for the amount of effort they expend. From this point of view, ability and hard work should be rewarded more highly than stupidity and laziness. A fair and just society requires that everybody should have an equal opportunity to succeed (for example, there should be open access to education, no legal barriers preventing particular groups from practising any trade or profession, no laws discriminating against people on the basis of their race or gender). But social justice does not require that all individuals should end up with the same, for this would reward those who are lazy and would penalise those who work hard, which would be the antithesis of justice and fairness.

Most Australians probably feel some sympathy with all three of these notions of fairness, even though they are in principle incompatible with each other.<sup>153</sup> It may well be true that if you ask people if they favour greater equality,

many will tell you that they do. But it is also true that if you asked them if people should be allowed to keep what is legally theirs to own, or if people who work hard should be rewarded more than those who do not, you will also find high levels of public support for these competing ethical principles. Most of us, one suspects, are egalitarians, liberals and meritocrats all at the same time.<sup>154</sup>

Ethical debates about social policy should therefore recognise that egalitarianism is not the only moral principle worthy of consideration. But most of the journalists, academics, policy advisers and welfare lobbyists who make up Australia's social policy community fail to understand this.<sup>155</sup> They automatically assume that 'fairness' and 'justice' imply a redistributionist agenda and that those who oppose such an agenda must therefore be in bad faith.<sup>156</sup> They fail to appreciate that there are other moralities every bit as compelling as theirs, and that many people just as moral as they are insist that it is wrong in principle to forcibly take money away from people simply because they have more of it than other people do.

### **The sociological argument: Equality and social cohesion**

The third reason why egalitarian policies of redistribution are favoured by so many social policy professionals lies in their belief that equality promotes social cohesion. Sometimes unwittingly, sometimes not, they express the classic Marxist belief that inequality necessarily produces social conflict. From this, they then deduce that reduced inequality must lead to greater social cohesion:

What we're doing, as everybody knows, is creating massive inequalities . . . [The consequence is] a more conflict-ridden society with far more class antagonisms. (Michael Pusey, SPRC)

Social cohesion emphasises the need for not only adequate levels of resources, but also the need for

equitable distribution of these resources (the bridging of social and economic divisions). (Wendy Stone and Jody Hughes, The Australian Institute for Family Studies)

The St. Vincent de Paul Society released a report showing the gap between rich and poor was reaching a crisis point. The Society said that unless there was a significant period in which the income gap was reduced, Australia would divide into two nations. (press report)<sup>157</sup>

Claims like these imply that it is in the interests of the 'rich' to have their money redirected to the 'poor', for only in this way might they avoid the threat of revolution in the streets, or at the very least a crime wave at their gates. There is a clear parallel here with the claim, discussed in Chapter Three, that when the 'rich' 'exclude' themselves from society by buying expensive houses in exclusive neighbourhoods or sending their children to private schools they somehow erode social integration. For example:

[T]he opting out of a wealthy minority from the common institutions of society . . . increases the likely number of citizens at risk of becoming socially excluded and breaks down the conditions for social solidarity. (The Smith Family)<sup>158</sup>

In both cases, the claim is that we should 'level down' in the interests of social harmony. But it is not true that conflict necessarily flows from inequality. Although the Australian intellectual and social policy establishment repeatedly assumes and asserts that equality promotes a cohesive society while inequality fragments it, there is little evidence to back this up. Indeed, much of the evidence flatly contradicts it.

Consider what has been happening to some of the obvious indicators of social fragmentation that sociologists and social commentators continually warn us about—things like rising crime rates, rates of substance abuse, suicide rates or rates of

depression and mental illness.<sup>159</sup> It is certainly the case that many of these indicators have been increasing quite alarmingly over the last 30 or 40 years, but there is no evidence that this has been associated with increased inequality of incomes. Indeed, while most of these indicators started worsening markedly in Australia from around the 1960s, income inequalities were *reducing* as a result of higher taxes and a massive expansion in targeted government welfare spending right up until the 1980s.<sup>160</sup> Greater equality thus went hand-in-hand with more conflict and fragmentation, not less.

The international evidence also lends little support to the belief that equality promotes social cohesion. Left intellectuals often point to America as an example of a dangerously fragmented society with high levels of social inequality, but American crime rates (other than homicides) are actually *lower* than in Australia. Furthermore, during the 1990s, when the Americans dramatically cut back on welfare spending, crime rates in most parts of the United States plummeted while Australia's continued to rise, yet egalitarian orthodoxy would have predicted quite the reverse effect.<sup>161</sup>

Nor does sociological theory support the idea that greater equality should result in enhanced social cohesion. True, Marx and Engels believed that widening inequalities would generate unrest and ultimately ferment revolution, but later and more sophisticated theorists argued convincingly against this proposition. Emile Durkheim, for example, showed that it is a fallacy to assume that people will only get along with each other if they are all alike, and he showed that an unequal but open society with high rates of social mobility can achieve high levels of political legitimacy and social cohesiveness provided people recognise and take advantage of the opportunities that exist for them and their children to better themselves (that is, the self-help strategy).<sup>162</sup> It may be true that social cohesion requires a 'fair' society, but as we have seen, this is not the same thing as an equal one.



It is only the traditional left, still struggling to extricate itself from under the corpse of Marxism, that assumes that inequality of outcomes necessarily generates class envy and social divisiveness. The opposite may actually be more likely, for nothing is more calculated to ferment conflict and resentment than one group forcibly expropriating the legitimately-held assets of another.

*Excursus: A note on inequality in health*

In recent years, the belief that social inequality produces bad social outcomes has been re-energised by research suggesting that more unequal societies suffer lower levels of physical and mental health. It has been known for a long time that mortality and sickness rates vary by income and by social class—the better off you are materially, the better your health is likely to be—but this more recent research goes further than this by suggesting that inequality itself causes ill-health. According to Richard Wilkinson, even affluent people would enjoy better health outcomes if they lived in a more equal rather than a less equal society, for hierarchy and inequality cause bad health:

Further increases in measured GNPpc make little difference to health . . . within countries the differences in the standard of living establish a social ordering of the population. What affects health is no longer the differences in absolute material living standards, but social position within societies . . . Countries in which the income differences between rich and poor are larger (meaning more or deeper relative poverty) tend to have worse health than countries in which the differences are smaller.<sup>163</sup>

Wilkinson believes that the explanation may be psycho-social—we feel bad if we find ourselves near the bottom of a sharply differentiated hierarchy, and this increases our susceptibility to diseases and accidents. Others believe the answer may lie in the tendency for less equal societies to

invest less in general public health measures. Whatever the explanation, evidence that inequality generates poor health has been seized upon in Australia to bolster the egalitarian case for 'narrowing the income gap'.<sup>164</sup>

The whole debate assumes that the empirical evidence is sound. In January 2002, the *British Medical Journal* published a series of papers indicating that it is not. In an editorial, the *BMJ* concluded:

It has recently become clear that the findings in [Wilkinson's] paper were an artefact of the selection of countries. Now that good data on income inequality have become available for 16 western industrialised countries, the association between income inequality and life expectancy has disappeared . . . the evidence for a correlation between income inequality and the health of the population is slowly dissipating.<sup>165</sup>

As the evidence for a link between inequality and health 'slowly dissipates', so too does the last remaining argument for compulsorily redistributing people's earnings so as to bring about a more equal distribution. The egalitarians have run out of arguments.

### **Towards a self-help strategy**

If redistribution of other people's money is neither a necessary nor desirable answer to poverty, the question is whether a self-help strategy could prove any better.

#### *Rethinking the rationale for the welfare state*

The starting point in rethinking Australia's approach to social welfare policy is to recognise that poverty in Australia in the 21st century affects a relatively small number of households. We cannot realistically begin to develop an alternative social policy until we stop exaggerating the scale of the problems that we face.

It is unhelpful and misleading to claim that sustained, long-term poverty blights the lives of even 13% of

Australians (as NATSEM's report for The Smith Family claimed), let alone that it affects more than 20% (as the Henderson estimates would have us believe), or that it extends to more than 40% (as 'consensual poverty' estimates have suggested). In Chapter Two we set out our grounds for believing that a serious long-term poverty problem probably affects no more than one in 20 households.

This means that poverty today is a manageable and targetable problem. It is not a mass phenomenon, and we do not need mass welfare solutions to tackle it.

When the social policy establishment claims that one-eighth, one-fifth or even one-third of the population is in dire need of help, it uses these alarmist figures to underpin calls to expand the scope of welfare services and to push spending even higher than it is already. Repeated suggestions that we face a huge and worsening poverty problem (even though we are spending more each year on government benefits and services) are intended to convey a sense of crisis which would then justify drastic action by the government. In reality, what we confront is far from a crisis, and we do not need the government redirecting even more of our money to do something about it.

We have seen that roughly 19 out of every 20 households in Australia are getting by. Some are doing a lot better than others, but this in itself does not warrant large-scale government intervention. Many of those for whom money is tight are going through a short-term dip in income from which they will soon emerge. Some are going through an expensive stage in the lifecycle which will be balanced later by greater affluence. But affluent or pinched, the great majority of Australians do not need a major new programme of government spending to keep their heads above water. They are managing, and if the tax burden on lower income earners was eased, many of them would manage even better.

The problem we have to tackle is concentrated in about one-twentieth of the population. This means we can start to think about much smaller-scale and better-targeted

solutions than those represented by the current welfare system.

In a modern, prosperous society like Australia, the task for social policy is really quite limited (although the social policy community is understandably loathe to accept this).<sup>166</sup> Times have changed since the Western welfare states evolved. Mass government programmes of assistance and provision came about at a time when few people could afford to pay for their own health care, educate their children, save for their retirement or insure against unemployment and illness. This is no longer the case. With economic growth doubling our real standard of living every 30 or 40 years, Australia has become an affluent country, and the majority of people are now in a position to provide much of what they need over their lifetimes from their own earnings, savings and investments. If taxes were lower, even more could do so.

Most of us already finance two of the most expensive of life's necessities—housing (more than two-thirds of us are owner-occupiers) and retirement income (financed since 1992 by compulsory superannuation). If the government got out of the way, many of us could also afford to make our own provisions for things like unemployment insurance and health cover. With a little ingenuity, we could even find a way to extend effective school choice to all parents by enabling them to buy the education that they want for their children rather than being obliged to accept inferior government-provided, taxpayer-funded schooling. There really is no need any more for the majority of the population to have these services organised and provided for them by politicians and bureaucrats. We are prosperous enough today to allow people to reclaim control over these core aspects of their own lives.

*Paying for our own benefits*

The embarrassing secret of the 21st century welfare state is that most of us do not need it any more. We no longer

require a large welfare state to look after us, still less do we require the government to extend the scale of welfare provision even further, as so many social policy intellectuals and activists would have us do. Indeed, the continuing growth of the welfare state in the 21st century is now generating more problems than it is solving, for not only do most of us no longer need it, but many of us are now being actively disadvantaged by the spiralling costs of its continuing operations.

Over the last 40 years, the tax burden on working people has grown alarmingly, and this is partly due to the increase in social welfare programmes. Since 1960, income tax as a percentage of total gross household income has increased from 6.9% to 14.7%. Over the same period, supplements to household incomes from the State have increased in much the same proportion (the percentage of gross household incomes made up of social assistance benefits has grown from 4.9% to 9.2%).<sup>167</sup>

The government has thus been dipping further and further into our pockets to hand out more and more of our own money. As Lucy Sullivan has shown, this has created an absurd vicious circle, for rising tax levels have driven many families to depend on welfare when they were previously quite capable of looking after themselves.<sup>168</sup> In 1965, for example, a single earner household with three dependent children did not start to pay income tax until its earnings exceeded 150% of Average Weekly Earnings (AWE). By 1997, however, a similar household on 150% of AWE was paying \$13,539 every year in taxes.<sup>169</sup> This growth in the tax burden has pushed increasing numbers of previously self-reliant families towards the poverty line.

Elsewhere we have shown that many households today pay as much or more in taxes as the government gives back to them in benefits and so-called free services.<sup>170</sup> The government today takes our money with one hand and returns it to us (less a top-slice to cover administrative

overheads) with the other. This is not only inefficient and wasteful but also profoundly disempowering, for it saps individual initiative and erodes personal responsibility and autonomy.<sup>171</sup>

An alternative strategy based on the principle of self-help would seek to leave as much money as possible in people's pockets to enable them to make their own decisions about how to provide for their various needs. With the astounding rate of economic growth achieved across all Western countries over the last 60 years,<sup>172</sup> most of the population is now in a situation where it could cope more-or-less unaided if only taxation levels were not so crippling. A move away from universal mass welfare towards a system of individual household purchasing would enhance our control over our own lives while reducing the spiralling upward trend in government spending.

In recent publications, CIS authors have begun to spell out in some detail how such a system might work, and we shall develop these ideas further in the future.

In some cases, we suggest that government should simply forego tax income in order to boost the effective purchasing power of households. In education, for example, there is a strong case for moving from government financing of schools to a system of tax credits for parents which would enable them to purchase the most appropriate schooling for their children.<sup>173</sup> Similarly, to help support the general costs of raising children, there is a strong case to be made for expanding tax credits for parents with dependent offspring while eliminating the growing array of government payments and services such as parenting payments and childcare allowances.<sup>174</sup>

In other areas of social policy, such as unemployment and health insurance or provision of retirement incomes, we need to move away from current punitive rates of tax on earnings so as to enable people to buy insurances or to set aside in personal accounts an adequate proportion of the incomes which accrue to them in the course of their working

lives. We do not need any longer to provide things like health care or age pensions through the State, but we do need to ensure that people can and do provide these things for themselves, and this may mean requiring working-age people to accumulate assets in one form or another so that they do not become a charge on the rest of the community later in their lives. There are important lessons to be learned in this respect from compulsory savings schemes in countries like Chile and Singapore, and our own compulsory superannuation scheme might be further developed as the basis for a new kind of self-help welfare system.<sup>175</sup>

#### *Learning from America*

There remains, of course, the question of what to do about the minority of households who currently rely heavily on the State to cope and who, without some such aid, would not under present conditions receive an income anywhere near sufficient to purchase the services they need.

For the most part, these households lack money because they have nobody in full-time paid employment. Virtually all analysts agree that the principal cause of poverty in Australia today is lack of paid work. NATSEM's report for The Smith Family, for example, found that only 3% of the individuals with incomes below its (inflated) poverty line lived in households where a wage or salary was the principal source of income.<sup>176</sup> The federal government's Reference Group on Welfare Reform similarly recognised that, 'People who do not participate in the economy are at increased risk of social disadvantage.'<sup>177</sup> And the SPRC's Peter Saunders accepts that: 'For those of working age, lack of employment remains the single most important determinant of poverty.'<sup>178</sup>

It would seem to follow from this that any drive to tackle poverty and to enhance the self-reliance of households which currently depend on welfare must involve getting those who are capable of working into jobs.

In part, this will require changes on the demand side of the labour market. For an economy which has been growing faster in recent times than almost any other in the Western world, Australia's performance in reducing unemployment—particularly long-term unemployment—has been disappointing. Most of the fruits of recent economic growth have gone in the form of increased earnings for those currently in jobs rather than in creation of new jobs,<sup>179</sup> and changes are needed to increase the willingness of employers to take on additional employees.

Current unfair dismissal laws, for example, undoubtedly contribute to high rates of long-term unemployment by deterring employers from taking on workers whom they may not be able to let go later on. Similarly, despite moves to encourage enterprise and individual agreements, the award system continues to limit the ability of employers (and employees) to adjust wages and working conditions to the particular conditions of their enterprises. At CIS we have begun to analyse the impact on employment of these and other labour market rigidities, and we shall continue to promote the case for further reform in future publications.<sup>180</sup>

The problem of high rates of non-participation in the labour market is not entirely on the demand side, however. It is also necessary to look at the supply of labour, and in particular at the motivation and incentives for people without jobs to look for work.<sup>181</sup>

Households where no working-age adult has full-time paid work are a diverse group, and social policy needs to recognise this diversity. Some people will always need social support because they cannot be expected to cope unaided; many severely disabled people obviously fall into this category, for example, although not everyone who currently claims the Disability Pension is incapable of working.<sup>182</sup> Some people who are out of work are committed to achieving self-reliance through employment but may need temporary assistance to do so (mature women returning to the workforce after raising children, for example, often need re-training to



bring their skills up-to-date).<sup>183</sup> Some people find themselves in need of financial support because they have acted unwisely (for example, teenage single mothers) or because they have been let down by individuals on whom they had a right to rely (for example, deserted married mothers), and in these cases it may be more appropriate to look for non-governmental sources of support than to keep paying unconditional welfare (in the case of deserted mothers, for example, it is normally appropriate to expect the father to make full and proper provision for his children). Finally, as we saw earlier, some people have little or no intention of fending for themselves for as long as welfare support is available, and in these cases, it might be better in the long-run to cut off the flow of cash support and to require them to look after themselves.

To find the most appropriate response to help these different groups resolve their problems and achieve greater self-reliance, social policy must obviously be willing to *discriminate* between them. We have seen, however, that this is something the social policy community in Australia is fiercely resistant to doing. Time and again, academics and pressure groups warn us against any attempt to distinguish between the 'deserving' and the 'undeserving' poor. They want everybody to be treated in the same way and they oppose any attempt to judge the relative merits of different kinds of claimants.<sup>184</sup>

The assumption seems to be that *anybody* has a right to expect their fellow citizens to offer them financial support if they find themselves 'in need', irrespective of why and how they came to be in this situation. The SPRC's Peter Saunders has recently made this assumption explicit by suggesting that Australia's workers should be expected to fund through their tax payments a basic level of welfare benefits for anybody who asks for support. He suggests that those who do not wish to work to support themselves should be able to 'opt out' of employment without any requirement or obligation being placed upon them by welfare agencies.<sup>185</sup>

Lumping all claimants together as 'needy', and recoiling from the ethical difficulty of distinguishing those who need our unconditional financial support from those who do not, it is little wonder that Australia's social policy activists and experts have been presiding over an ever-expanding welfare system. As they have been expanding the supply of welfare, so they have been encouraging an ever-increasing demand. Far from solving the problems it was set up to tackle, the welfare system keeps adding to them. This is why, for much of the last 30 or 40 years, we have been increasing taxes and rising levels of welfare spending, yet we have ended up with many more people requiring or demanding government largesse today than when we started. It is time to get off this merry-go-round and try something different.

The solution to poverty lies not in redistributing incomes from those who work to those who do not (for this discourages the former group while adding to the size of the latter), but in getting as many as possible of the latter group actively engaged in the labour force. To do this, we need to learn from the successful American initiatives of recent years which have restored many welfare claimants to self-reliance.

Thirty years after the launch of Lyndon Johnson's ill-fated 'war on poverty', there was a revolution in social policy in the US when, in 1996, a new system of federal welfare support was introduced which time-limited welfare eligibility and placed strong emphasis on the responsibility of people without jobs to find paid employment. The outcome was that nationally, the number of Americans on welfare fell by 58% between 1996 and 2000.<sup>186</sup>

The social calamity anticipated by many opponents of the reform never materialised. Most of those leaving the welfare rolls found and retained jobs (albeit quite low-paid ones) and most former claimants reported enhanced levels of self-esteem as a result of getting off welfare and into work.<sup>187</sup>

Child poverty did not worsen as a result of the draconian cuts in welfare support (new estimates show that child

poverty actually *fell* by 2.3 million) and behavioural and educational outcomes for younger children seem to have improved.<sup>188</sup> Nor does 'social cohesion' seem to have been damaged by the welfare roll-back, for as we saw earlier, American crime rates fell significantly during the 1990s, and rates of single parenthood began to stabilise.<sup>189</sup>

Whether these positive results flowing from welfare reform can be sustained in the future is a matter of some debate. New claims have emerged that economic growth during the 1990s contributed little to the fall in the welfare rolls, but Douglas J. Besharov and Peter Germanis estimate that only between 30% and 45% of the reduction in welfare rolls was caused by the welfare reforms while the rest was due to favourable economic conditions (15% to 25%) and to enhanced support for low paid workers in the form of tax credits and a higher minimum wage (30% to 50%).<sup>190</sup> If they are right, the end of the long economic boom may make it more difficult for welfare claimants to find and keep work in the future, and there are signs that welfare dependency may be starting to rise as growth falters.<sup>191</sup> The most judicious conclusion is that the reforms had an effect, but that recession will erode some of the gains that have been made.

Australia could and should seek to emulate America's success in reducing the rate of welfare dependency, but our social policy community is loathe to follow the American path. Whenever somebody suggests that we learn from the Americans and make a serious attempt at cutting the welfare budget rather than constantly increasing it, we are told that this cannot be done, that too many people have become dependent on the drip-feed of government benefits, and that millions would be hurt if they were required to start taking more responsibility for themselves. American lessons, we are told, have no relevance for Australia, and the American approach is 'not acceptable' here.<sup>192</sup> In our future publications, we shall suggest that this is unduly pessimistic and defeatist.

## Conclusion

We saw in Chapter One that welfare spending in Australia has multiplied five-fold since the 1960s, and that reliance on welfare support as the sole or principal source of income has increased from 3% to 14% of working-age adults. As dependency has grown, so too has the government bureaucracy—the welfare state now employs almost one-fifth of the Australian labour force.<sup>193</sup> Yet this has been a period when the real wealth of Australian society has doubled. If giving people welfare benefits were the solution to poverty, poverty should have disappeared by now, yet social policy experts keep assuring us that the problem is getting worse rather than better.

In social policy, nothing succeeds like failure. The more welfare spending has risen, the greater becomes the scale of welfare dependency, and the more people there are on welfare, the more the social policy community argues for a further expansion in welfare spending. Seeing that their medicine has failed to work, they call for ever larger doses to be administered. Welfare is perpetually increased, even though the problem it is said to be addressing never seems to reduce.

The result of all this is that for the last 40 years we have been running up a down escalator. Over time we have been increasing the tax burden on those who are employed so as to divert ever-increasing amounts of their money and resources to those without full-time employment. This has proved hugely counter-productive. It has reduced incentives and rewards for those in work while increasing the attractiveness and feasibility of life without a wage for those on welfare. It is time we stopped chasing our tails and tried something different.

We have seen in this chapter that there are two ways of tackling poverty. One—which has been pursued for much of the last 30 years and is still favoured by most of Australia's social policy experts—is to give some people a slice of other people's money. This redistribution strategy claims

legitimacy by reference to Australia's cultural traditions of egalitarianism and 'fairness', but we have seen that popular support for radical egalitarian policies may not be as strong as is commonly believed, and that a concern with 'fairness' does not in any case equate with redistribution. Taking money from people who work hard and save to give it to people who do not want to work and who have little regard for the future is unlikely to strike many ordinary Australian men and women as an application of their belief in a 'fair go', and it is certainly no way to build social cohesion.

The alternative is to promote self-help. Most Australians could provide most of what they need without having it dispensed to them by the government, and if taxes were reduced, the scope for self-reliance would expand still further. In this chapter we have begun to sketch out the basic principles of an alternative social policy which would enable people to set aside a portion of their incomes to buy services currently provided for them by the government, and which would extend an expectation of self-reliance and personal autonomy to many of those who currently depend on welfare benefits as their principal source of income. In future work, we shall put flesh on these bones as we elaborate the case for a major re-think of Australia's social welfare system.

It is right that we as a society should be concerned about poverty, but we have too often been misled by inflated estimates of the size of the problem, and our instinct to help others in need has too easily been harnessed to a political project of redistribution which in the long term offers nothing to the poor. We should have the moral courage and the intellectual honesty to recognise that we no longer need a mass welfare state and that the best way to help others in the 21st century will be to enable them to develop the sort of self-reliance which most of us already take for granted in our own lives.

# Endnotes

- <sup>1</sup> P. Saunders\*, 'The Meaning of Poverty', *SPRC Newsletter* no.65 (1997); P. Saunders\*, *The Ends and Means of Welfare* (Port Melbourne: Cambridge University Press, 2002), ch.6. Note that this Peter Saunders is Director of the Social Policy Research Centre (SPRC) and is no relation to the co-author of the present book. To distinguish the two, publications by the SPRC's Peter Saunders appear in these footnotes with \*, while publications by the present author are identified by †.
- <sup>2</sup> Harry Greenwell, Rachel Lloyd and Ann Harding, 'An Introduction to Poverty Measurement Issues', *NATSEM Discussion Paper* No. 55(Canberra: NATSEM, 2001), p.25.
- <sup>3</sup> 'Australia has the fifth highest rate [of child poverty] (17.1%) behind Russia, the USA, the UK and Italy', Ann Neville, *State of the Family* (Melbourne: Anglicare Australia, 2002), p.8. Neville's figures are taken from Luxemburg Income Study Data. See Bruce Bradbury and Marcus Jantti, 'Child Poverty Across 25 Countries', in B. Bradbury, S. Jenkins and J. Mickelwright (eds) *The Dynamics of Child Poverty in Industrialised Countries* (Cambridge: Cambridge University Press, 2001), Table 3.2. We shall see later that these international comparative statistics are more problematic than Neville seems to appreciate.
- <sup>4</sup> Most Australians define poverty as the lack of the means to enable basic subsistence, although what 'subsistence' means changes over time. See P. Saunders\* and B. Bradbury, 'Some Australian Evidence on the Consensual Approach to Poverty Measurement', *Economic Analysis and Policy* 21 (1991), pp.47-73.

- 5 See Amartya Sen, 'Poor, Relatively Speaking', *Oxford Economic Papers* 35 (Oxford: Oxford University Press, 1983), p.159.
- 6 P. Saunders\*, 'Getting Poverty Back Onto the Policy Agenda', *Briefing Paper* No.10 (Camperdown: The Smith Family, March 2002), p.2.
- 7 'One reason why the concept of absolute poverty is not in favour today is that, with the increase in absolute levels of affluence during this [twentieth] century, such an approach soon defines poverty out of existence'. See P. Travers and S. Richardson, *Living Decently* (Melbourne: Oxford University Press, 1993), p.165.
- 8 For data on increases in national wealth and welfare spending, see M. Warby and M. Nahan, 'From Workfare State to Transfer State', *IPA Backgrounder* 10: 3 (1998).
- 9 See, for example, P. Saunders\*, *Welfare and Inequality* (Melbourne: Cambridge University Press, 1994), pp.223-30.
- 10 A. Sen, 'Poor, Relatively Speaking', p.159.
- 11 G. Rosenthal, 'Identifying the Poor: Economic Measures of Poverty', in D. Moynihan (ed), *On Understanding Poverty: Perspectives from the Social Sciences* (New York: Basic Books, 1969); H. Greenwell, R. Lloyd and A. Harding, 'An Introduction to Poverty Measurement Issues', *NATSEM Discussion Paper* No. 55 (Canberra: NATSEM, 2001).
- 12 This approach was pioneered in America by Lee Rainwater and has subsequently become associated with researchers at Leyden University in the Netherlands. It is outlined by Peter Saunders\* in *The Ends and Means of Welfare*.
- 13 '17% of respondents in a representative survey of the British population perceived their incomes to be less than the absolute poverty line as defined at the World Summit on Social Development . . . This is a significant finding as the UN definition of absolute poverty was thought by many experts to only be applicable to conditions in developing countries.' See David Gordon, 'Measuring Absolute and Overall Poverty', in D. Gordon and P. Townsend, *Breadline Europe* (Bristol: Polity Press, 2000), p.55.
- 14 P. Saunders\*, *The Ends and Means of Welfare*, p.165.
- 15 David Johnson, 'Poverty Lines and the Measurement of Poverty', *The Australian Economic Review* (1996), p.116.
- 16 P. Saunders\*, *The Ends and Means of Welfare*, p.163. In earlier work, Saunders argued for a consensual poverty line, even though it produces extremely high estimates, because respondents increase their judgement about minimum necessary incomes as standards of

- living rise. See P. Saunders\* and B. Bradbury, 'Some Australian Evidence on the Consensual Approach to Poverty Measurement', *Economic Analysis and Policy* 21 (1991), p.47-73. Consensual approaches do, however, seem highly problematic, and attempts to overcome the problems often seem to end up making things worse. For example, see Axel West Pederson, 'The Consensual Approach to Poverty Revisited', Paper to XV World Congress of Sociology, (Brisbane, 2002).
- <sup>17</sup> See P. Saunders\*, 'A New Poverty Line?', *SPRC Newsletter* No. 69 (University of NSW: SPRC, 1998), p.4; P. Saunders\*, 'Budget Standards and the Poverty Line', *The Australian Economic Review* (March 1999), p.51. Henderson based his line on the basic wage for an unskilled worker in 1966, plus child endowment, but by 1966 the basic wage had long since ceased to be needs-based. See Travers and Richardson, *Living Decently*, p.170. The line worked out at 56.5% of the Average Weekly Earnings for a 'standard family'.
- <sup>18</sup> H. Greenwell et al, 'An Introduction to Poverty Measurement Issues', *NATSEM Discussion Paper* No.55 (Canberra: NATSEM, 2001), Table 4.
- <sup>19</sup> A. Harding, R. Lloyd and H. Greenwell, *Financial Disadvantage in Australia 1990 to 2000* (Sydney: The Smith Family, 2000), Tables 16 and 17.
- <sup>20</sup> Any estimate of the changing number of people in poverty over time depends crucially on how poverty lines get updated. If we want to know whether there has been a change in people's *real* living standards over time, we should use the Consumer Price Index (CPI) as the basis for updating, but poverty research very rarely makes use of the prices index. As Greenwell, Lloyd and Harding note in 'An Introduction to Poverty Measurement Issues' (p.21): 'The consumer price index has been shunned as a basis for updating poverty lines in Australian poverty research . . . However . . . it might be valuable to know that a person's *real* standard of living has improved even if his or her *relative* standard of living has not. This suggests that the consumer price index might be an appropriate updating index for some purposes.' Despite recognising that 'the choice of updating index could have a significant impact on poverty trends', these authors failed to use CPI in the poverty research they carried out for The Smith Family.
- <sup>21</sup> Peter Saunders\* et al, 'Development of Indicative Budget Standards for Australia', *Social Policy Research Centre Research Paper* No.74 (University of NSW: SPRC, 1998), p.63. Although this report



- warns against treating the low cost budget as a poverty line, the SPRC launched it with an article asking somewhat rhetorically whether it could be used as 'a new poverty line', and elsewhere Saunders notes that it is 'likely to be considered as such'. See P. Saunders\*, 'Budget Standards and the Poverty Line', p.55.
- <sup>22</sup> P. Saunders\*, 'Budget Standards and the Poverty Line', p.41.
- <sup>23</sup> P. Saunders\*, 'A New Poverty Line?' (see note 17).
- <sup>24</sup> 'Equivalentised income' refers to total household incomes after they have been adjusted to take account of the size and composition of the household. See note 44 for further details.
- <sup>25</sup> For example, C. Whelan, R. Layte, B. Maitre and B. Nolan, 'Persistent Income Poverty and Deprivation in the European Union', *European Panel Analysis Group Working Paper* No.17 (Dublin: Economic and Social Research Institute, 2001). See also D. Jesuit and T. Smeeding, 'Poverty and Income Distribution', *Luxembourg Income Study Working Paper* No.293 (New York: Maxwell School of Citizenship and Public Affairs, Syracuse University, 2002), p.2; A. Harding et al, *Financial Disadvantage in Australia*, p.26 (see note 19).
- <sup>26</sup> A. Harding et al, *Financial Disadvantage in Australia*, p.6.
- <sup>27</sup> A. Harding et al, *Financial Disadvantage in Australia*, p.5.
- <sup>28</sup> *The Australian*, editorial (17 January 2002).
- <sup>29</sup> A point made by Lyle Dunne, 'Is Poverty Increasing or Decreasing?', *Adelaide Review* (February 2002), p.14.
- <sup>30</sup> 'Poor Wars', *Adelaide Review* (March 2001), p.10.
- <sup>31</sup> In what follows we focus on the issue of inequality of incomes, although inequality of wealth is also obviously important as an influence on people's life chances. Data on wealth inequalities in Australia indicate that inequality is greater than for incomes, but that the gap has remained constant over time, due mainly to the effect of the spread of superannuation assets across the population. Between 1986 and 1998, household wealth grew at a rate of 8.6% per year. See Simon Kelly, 'Trends in Australian Wealth', Paper to the 30<sup>th</sup> Annual Conference of Economists (University of Western Australia, 26 September 2001).
- <sup>32</sup> D. Jesuit and T. Smeeding, 'Poverty and Income Distribution', p.7.
- <sup>33</sup> See P. Smyth and B. Cass (eds), 'Is Australia Particularly Unequal?', *Contesting the Australian Way* (Melbourne: Cambridge University Press, 1998), p.221. An additional confounding factor, as Frank Castles points out, is that a country like Australia looks more unequal because it uses private rather than state solutions which tend to get

overlooked in international comparisons. State sickness insurance, for example, seems low in Australia compared with Europe until we remember that Australian employees have a five-day sickness entitlement paid by employers. Take this into account, and Australian sickness provision rises to the OECD average. Similarly, state provision for the elderly seems miserly in Australia as compared with many European countries, but Australian employers are obliged to make contributions to their employees' private superannuation funds, whereas European social insurance systems cover old age through state benefits. Australia's high rates of home ownership (often boosted by government subsidies) mean that most people do not have to pay rent in their old age which enhances their disposable net incomes as compared with elderly tenants in European countries, but cross-national pre-housing-cost income comparisons fail to take account of this. There are also problems in comparing the generosity of welfare benefits. In Australia, benefits are paid according to need, whereas in Europe they reflect prior contributions. Earnings-related benefits in Europe appear to be higher than the flat-rate, means-tested payments in Australia, but they have to cover dependents. Take this into account and we discover that benefits payable to long-term unemployed couples in Australia turn out to be higher than in Sweden. See Francis Castles, 'The Institutional Design of the Australian Welfare State', *International Social Security Review* 50 (1997), pp.25-41.

<sup>34</sup> For example, Ann Neville, *State of the Family*, points to the Nordic countries as the model for Australia to follow. On the eulogising of Scandinavian welfare systems, see P. Saunders†, 'Australia is Not Sweden', *Policy* 17:3 (Sydney: The Centre for Independent Studies, Spring 2001), pp.29-32.

<sup>35</sup> Ann Neville, *State of the Family*, p. 3, emphasis added.

<sup>36</sup> Rob Simons, Letter in *Business Review Weekly* (28 Feb-6 March, 2002), emphasis added.

<sup>37</sup> Andrew McCallum, 'Whichever Way it is Measured, Poverty is Unacceptable', ACOSS Media Release (17 January 2002).

<sup>38</sup> Dennis Trewin, *Measuring Australia's Progress*, ABS Catalogue No. 1370.0 (Canberra: ABS, 2002). For a fuller critique of this report see Peter Saunders†, 'Whose Progress?', *CIS Issue Analysis* 25 (Sydney: The Centre for Independent Studies, June 2002).

<sup>39</sup> Dennis Trewin, *Measuring Australia's Progress*, p.40. It is also significant that most of the secondary indicators on this dimension are, directly or indirectly, measures of inequality rather than measures

- of 'disadvantage' *per se* (for example, shares received by different income percentiles, income shares expressed as ratios, proportion of households below various poverty lines and a Gini coefficient, which summarises the degree of inequality in an income distribution).
- <sup>40</sup> Dennis Trewin, *Measuring Australia's Progress*, p.40.
- <sup>41</sup> J. Cox, 'The Poverty Line Revisited', *Agenda* 9 (2002), p.110.
- <sup>42</sup> P. Saunders\*, 'An Ever Rising Tide? Poverty in the Eighties', *Economic and Labour Relations Review* 2 (Sydney: University of NSW, 1991), p.145.
- <sup>43</sup> P. Saunders\*, 'Getting Poverty Back Onto the Policy Agenda', (see note 6).
- <sup>44</sup> A. Harding et al, *Financial Disadvantage in Australia*, Tables 16 and 17. All these estimates are based on estimated total household incomes which for the purposes of the analysis are allocated to all individual members. For example, if a household has five members and an equivalised total income of \$1,000 per week, then all five individuals will be allocated a \$1,000 income. Note also that household incomes are 'equivalised' to try to take account of the different amounts of income that households of different sizes need in order to achieve comparable standards of living with one another. A couple needs more money than a single person, for example, but not twice as much, for they can share the cost of housing, heating and so on. In its report for The Smith Family, NATSEM takes the 'baseline' household as one with a full-time worker, a spouse not in the labour force, and two dependent children (one aged under 5 and the other aged 6-14 years). People in other kinds of households then have their incomes adjusted against this baseline—for example, a couple without children is considered to require only 73% of the baseline household income in order to achieve an equivalent standard of living, so their actual income is inflated for comparative purposes before including it in the analysis. It is on the basis of their equivalised incomes, rather than their actual incomes, that individuals are finally ranked and compared for the purposes of analysis. Clearly, equivalised income data are only as good as the assumptions on which the equivalence scales are constructed, and use of equivalence scales inevitably entails arbitrary judgements. Different scales based on different assumptions can produce quite different estimates of the extent of poverty.
- <sup>45</sup> A. Harding et al, *Financial Disadvantage in Australia*, (see note 19).
- <sup>46</sup> David Green, *Benefit Dependency* (London: IEA Health and Welfare Unit, 1998), p.25

- <sup>47</sup> C. Whelan, R. Layte, B. Maitre and B. Nolan 'Persistent Income Poverty and Deprivation in the European Union', *European Panel Analysis Group Working Paper* No.17 (Dublin: Economic and Social Research Institute, 2001).
- <sup>48</sup> *The Sydney Morning Herald* (13 August 2002). It is also relevant to note that there is much churning in and out of employment. The ABS estimates that 2% of the labour force moves into employment and 2% moves out each month. Thanks to Graham Dorrance for bringing this to our attention. Some 9.1% of those who were unemployed in July 2002 had found full time work by August, see K. Tsumori, 'Only Deregulation Can Create Jobs', *The Australian Financial Review* (21 October 2002).
- <sup>49</sup> Ann Harding draws a helpful distinction between what she calls 'incidence' and 'distribution' effects of welfare spending. She makes the point that even if higher income groups gain more than lower income groups from a particular service (as may be the case with higher education, for example), the relative impact, or *incidence* (defined as 'the value of the spending as a percent of each group's original income share') may still be to reduce the inequality between them. As she suggests: 'If one wants to discover whether government action has made the distribution of income more equal, the important question is not so much the relative share of spending on a particular item accruing to different income groups, but rather the share of spending *relative to each group's share of original income*'. See Ann Harding, 'Who Benefits? The Australian Welfare State and Redistribution', *Social Policy Research Centre Reports and Proceedings Series* No.45 (Sydney: SPRC, 1984), p.20, emphasis in original. Seen in this way, almost all government social expenditure will narrow relative income inequalities, which is precisely why it is so important to include these effects in calculations of relative poverty and income distribution.
- <sup>50</sup> The Gini coefficient is a commonly used summary measure of the extent of inequality in an income distribution. It measures inequality on a scale between 0 (complete equality) and 1.
- <sup>51</sup> Ann Harding, 'The Impact of Health, Education and Housing Outlays on Income Distribution in Australia in the 1990s', *NATSEM Discussion Paper* No.7 (Canberra: NATSEM, August 1995), p.21. To get a sense of how significant this change is, the Gini coefficient measuring income inequality in Australia rose from 0.295 in 1988-89 to 0.311 ten years later, a 5% increase. See Ann Harding and Harry Greenwell, 'Trends in Income

- and Expenditure Inequality in the 1980s and 1990s', Paper to the 30<sup>th</sup> Annual Conference of Economists (24 September 2001, Canberra). This has caused a lot of fuss among egalitarians yet it is only half as big a change as that which occurs when we add the value of government services to data on disposable (cash) incomes.
- <sup>52</sup> D. Johnson, I. Manning, and O. Hellwig, *Trends in the Distribution of Cash Income and Non-cash Benefits* (Canberra: Australian Government Publishing Service, 1995), p.107. See also P. Raskall and R. Urquhart, *Inequality, Living Standards and the Social Wage During the 1980s*, Study of Social and Economic Inequalities Monograph No.3 (Kensington: The University of New South Wales, 1994); A. Harding, 'The Impact of Health, Education and Housing Outlays on Income Distribution in Australia in the 1990s', pp.71-86.
- <sup>53</sup> D. Johnson et al, *Trends in the Distribution of Cash Income and Non-cash Benefits*, Table 3.2.
- <sup>54</sup> Ann Harding, 'The Impact of Health, Education and Housing Outlays on Income Distribution in Australia in the 1990s', Abstract.
- <sup>55</sup> P. Saunders\*, 'The Role, Value and Limitations of Poverty Research', *SPRC Discussion Paper* No.53 (University of NSW: SPRC, 1994), p.16
- <sup>56</sup> H. Hughes, 'The Politics of Envy: Poverty and Income Distribution', *Policy* 17:2 (Winter 2001), p.14.
- <sup>57</sup> A. Harding and H. Greenwell, 'Trends in Income and Expenditure Inequality in the 1980s and 1990s: A Re-examination and Further Results', *NATSEM Discussion Paper* No.57 (Canberra: NATSEM, June 2002).
- <sup>58</sup> ABS, *Government Benefits, Taxes and Household Income 1998-99* (Canberra: ABS, 2001), p.44.
- <sup>59</sup> A. Harding and H. Greenwell, 'Trends in Income and Expenditure Inequality in the 1980s and 1990s', p.18.
- <sup>60</sup> H. Hughes, 'The Politics of Envy', p.14.
- <sup>61</sup> C. Bajada, 'Estimates of the Underground Economy in Australia', *The Economic Record* 75:231 (1999), p.369.
- <sup>62</sup> C. Bajada, 'Estimates of the Underground Economy in Australia', p.378.
- <sup>63</sup> A. Harding et al, *Financial Disadvantage in Australia*, Table 3, (see note 19).
- <sup>64</sup> See D. Green, *Benefit Dependency*, pp.25-7, (see note 46).

- <sup>65</sup> G. Barrett, T. Crossley, and C. Worswick, 'Consumption and Income Inequality in Australia', *The Economic Record* 76:233 (2000), pp.116-38.
- <sup>66</sup> R. Bray, 'Poverty Lines and Living Standards', Paper to the Department of Family & Community Services seminar on 'Hardship in Australia' (Sydney, 2 September 2002).
- <sup>67</sup> A. Harding and H. Greenwell, 'Trends in Income and Expenditure Inequality in the 1980s and 1990s', pp.14, 16.
- <sup>68</sup> ABS, *Government Benefits*, p.44.
- <sup>69</sup> H. Greenwell et al, 'An Introduction to Poverty Measurement Issues', p.15, emphasis added.
- <sup>70</sup> Rob Bray, 'Hardship in Australia', *Department of Family and Community Services Occasional Paper* No.4 (Canberra: FaCS, 2001).
- <sup>71</sup> He listed 17 'technical errors and misinterpretations' which he claimed to have found in our critique of the NATSEM/Smith Family report. The 16th related to our misgivings about the treatment of zero and negative incomes. See P. Saunders\*, 'Getting Poverty Back Onto the Policy Agenda', p.3, (see note 6).
- <sup>72</sup> ABS, *Government Benefits, Taxes and Household Income, 1998-99* (Canberra: ABS, 2001), p.44.
- <sup>73</sup> ABS, 'Upgrading Household Income Distribution Statistics', *Australian Economic Indicators*, Catalogue 1350.0 (Canberra: ABS, March 2002).
- <sup>74</sup> ABS, 'Upgrading Household Income Distribution Statistics', p.4.
- <sup>75</sup> ABS, 'Upgrading Household Income Distribution Statistics', p.7.
- <sup>76</sup> ABS, *Measuring Australia's Progress*, p.40.
- <sup>77</sup> ABS, *Measuring Australia's Progress*, p.40.
- <sup>78</sup> ABS, *Measuring Australia's Progress*, p.52n.
- <sup>79</sup> P. Saunders\*, 'Getting Poverty Back Onto the Policy Agenda', p.3, (see note 6). Few of the 17 'errors and misinterpretations' that he claimed to find in our work were either erroneous or based on misinterpretation. Some were matters of opinion (for example, at point 14, Saunders opines that the value of government services need not be included when calculating people's incomes, and at point 16 he suggests that it was perfectly acceptable for NATSEM to reset negative reported incomes to zero). Others were based on pedantry (for example, at point 12, we say that the self-employed 'claim to receive less than other people', meaning that their reported incomes are lower than those reported by others, but Saunders chooses to interpret this as us saying that the self-employed literally claim that their earnings are lower than other peoples).

It would be tedious to answer every point, and anyway, most of this has now been eclipsed by the ABS admission that its data are wrong.

<sup>80</sup> A. Harding and H. Greenwell, 'Trends in Income and Expenditure Inequality in the 1980s and 1990s: A Re-examination and Further Results', p.iii.

<sup>81</sup> In a remarkable postscript to this whole affair, the social affairs commentator Hugh Mackay wrote an article about the ABS in *The Sydney Morning Herald* (22 June 2002) which was almost embarrassingly sycophantic and fulsome in its praise and which completely overlooked all the problems that the ABS had been experiencing with its surveys: 'Australia is blessed with one of the world's leading statistical services . . . the ABS is a national treasure . . . ever since it was established in 1905 as the Commonwealth Bureau of Census and Statistics, it has generated nothing but goodwill and trust.' It is almost as if none of the problems had ever happened.

<sup>82</sup> Karl Popper, *The Logic of Scientific Discovery* (London: Huthinson, 1968).

<sup>83</sup> H. Hughes, 'The Politics of Envy', p.16, (see note 56).

<sup>84</sup> P. Saunders\*, 'Getting Poverty Back Onto the Policy Agenda', p.4, (see note 6).

<sup>85</sup> Assuming that all unemployed people are poor by definition, for example, George Megalogenis wrote that CIS 'made its own guess on how much poverty there really is. It chose 5% . . . If only 5% of the population is poor, as the centre asserts, why is it the labour market still can't find work for 7%?', *The Australian* (25 February 2002). This non-sequitur was surpassed by John Spoehr writing in the *Adelaide Advertiser* (19 January 2002). He suggested that The Smith Family poverty estimate must be better than the CIS one because The Smith Family works with poor people. The CIS, he said, 'is a well-known advocate of many of the free market economic and welfare policies now operating nationally' while The Smith Family 'deals with the consequences of some of these policies on a daily basis' and must therefore have a 'better understanding' of the statistics.

Meanwhile, Jill Singer in the Melbourne *Herald Sun* (18 January 2001) referred to our estimates as 'callous', mocked our 5% guesstimate on the grounds that 'people who allegedly worship at the altar of statistical analysis' should not make guesses, and attacked us as 'a mob . . . who fail to show any concern or compassion for the

thousands of Australians doing it tough'. Ms Singer's own compassion and concern did not, however, extend to making the effort to get her facts right. She indignantly told her readers: 'According to CIS it is preferable to base poverty estimates on average rather than median income...' (which is exactly the opposite of what we had argued). The newspaper chose not to print our correction. Needless to say, none of these people has gone into print since April 2002 to tell us what they think about the poverty statistics now that even the ABS has admitted that the income data are erroneous.

<sup>86</sup> R. Bray, 'Hardship in Australia', Table 4, (see note 70). Serious cashflow problems in the last year are defined by two of the following criteria: an inability to pay a utility bill on time, an inability to pay a car registration or insurance on time, and seeking financial assistance from family and friends. Only half of 1% report both multiple hardship and multiple cash flow problems.

<sup>87</sup> P. Saunders\*, *The Ends and Means of Welfare*, p.168, (see note 1).

<sup>88</sup> Quoted by Lyle Dunne in the *Adelaide Review* (February 2002).

<sup>89</sup> Peter Townsend, *Poverty in the United Kingdom: A Survey of Household Resources and Standards of Living* (UK: Penguin, 1969). Townsend was more open about his political aims than many of those who have followed him—the book concludes with a list of policy prescriptions to eradicate poverty including imposition of ceilings on the amount of wealth people are allowed to own and the incomes they are allowed to earn, more public ownership and 'industrial democracy', and increased taxes on business.

<sup>90</sup> H. Silver, 'Social Exclusion and Social Solidarity', *International Labour Review* 133:5-6 (1994), p.532.

<sup>91</sup> Andrew Leigh, 'Social Policy Requires a Fresh Focus', *Canberra Times* (3 July 2001).

<sup>92</sup> <http://www.premcab.sa.gov.au/html/socialinclusion.html>.

<sup>93</sup> Silver, 'Social Exclusion and Social Solidarity'. See also Graham Room, 'Poverty and Social Exclusion', *Beyond the Threshold* (Bristol: Policy Press, 1995), p.6, who, like Silver, distinguishes the liberal tradition of Anglo-Saxon thought, with its emphasis on 'poverty', from the continental European 'social democratic vision that shapes the debate on social exclusion'. Social exclusion is a concept rooted in European social democracy.

<sup>94</sup> Quoted in Peter Travers, 'Welfare Dependence, Welfare Poverty and Welfare Labels', *Social Security Journal* 2 (1998), p.117.

<sup>95</sup> For an exception, see Lucy Sullivan, *Behavioural Poverty* (Sydney: The Centre for Independent Studies, 2000).



- <sup>96</sup> These theorists pointed to the way in which material deprivation may be compounded by a culture of fatalism and helplessness which is a response to poverty yet which also traps each new generation in deprived circumstances. See, for example, Oscar Lewis, *The Children of Sanchez* (New York: Random House, 1961) and W. Miller, 'Lower Class Culture as a Generating Milieu of Gang Delinquency', *The Sociology of Crime and Delinquency* (New York: Wiley, 1962).
- <sup>97</sup> David Green, *An End to Welfare Rights* (London: Institute of Economic Affairs, 1999), ch.2.
- <sup>98</sup> See also Tania Burchardt, 'Social Exclusion: Concepts and Evidence', in D. Gordon and S. Townsend (eds), *Breadline Europe* (Bristol: Policy Press, 2000), note 13, who similarly finds nothing distinctively new in the concept.
- <sup>99</sup> G. Orwell, *1984* (London: Penguin, 1954), pp.257-8.
- <sup>100</sup> Ever since Saussure, socio-linguists have understood that the meaning which we attach to the world is mediated by language—by the specific words which we use to identify things, and by the relationship between these words and others associated with them. Identifying something by a given word thus rules out certain kinds of interpretations while directing us towards others—certain interpretations appear obviously 'correct' while others seem self-evidently 'absurd'.
- <sup>101</sup> Mission Australia, *Building Strengths* (submission to Welfare Reform Reference Group, 1999, p.5); G. Zappala, V. Green and B. Parker, 'Social Exclusion and Disadvantage in the New Economy', *The Smith Family Working Paper No.1* (Camperdown, Sydney: The Smith Family, 2000); Australian Council of Social Service (ACOSS), 'Budget 2001: Closing the Gap', *ACOSS Paper 112* (Sydney: ACOSS, 2001), p.7; Reference Group on Welfare Reform, *Participation Support for a More Equitable Society* Interim Report (Canberra: FaCS, March 2000), p.12), emphases added.
- <sup>102</sup> These 'indicators' included things like accidental death rates, divorce and suicide rates, depression and anxiety, and even cigarette smoking. Clearly, as Ruth Levitas has pointed out, researchers had got themselves into a dreadful tangle and were confusing indicators with risk factors. Cigarette smoking, for example, may be associated with 'social exclusion' (it is a 'risk factor' in statistical language, for people who are socially excluded are more likely to smoke), but it is difficult to see it as an indicator of it (it makes no sense to say that smoking identifies somebody as socially excluded). See R. Levitas, 'What is Social Exclusion?' in *Breadline Europe*, (see note 98).

- <sup>103</sup> Zappala et al, *Social Exclusion and Disadvantage in the New Economy*, p.5.
- <sup>104</sup> M. Bittman, 'Social Participation and Family Welfare: The Money and Time Cost of Leisure', *SPRC Discussion Paper* No.95 (The University of NSW: Social Policy Research Centre, 1999), p.5.
- <sup>105</sup> M. Bittman, *Social Participation and Family Welfare*, p.2.
- <sup>106</sup> The list, compiled by Hilary Silver, is cited in D. Gordon, *The British Poverty and Social Exclusion Survey* (Department for Social Development and Queens University Belfast joint seminar on 'Joblessness and Poverty', no date, [www.dsdni.gov.uk/srb/dsdqub\\_research.html](http://www.dsdni.gov.uk/srb/dsdqub_research.html), downloaded 7.5.02).
- <sup>107</sup> A. Giddens, *The Third Way* (Cambridge: Polity Press, 1998), pp.104-5.
- <sup>108</sup> Peter Saunders\* in *The Australian Financial Review* (13 February 2002).
- <sup>109</sup> 'Many people live entirely decent and respectable and "included" lives on the level of income which is the minimum received under current welfare provisions . . . Poverty in Australia today is not financial, but behavioural', Lucy Sullivan, *Behavioural Poverty* (Sydney: The Centre for Independent Studies, 2000), p.47.
- <sup>110</sup> G. Megalogenis, *The Australian* (25 February 2002).
- <sup>111</sup> ACOSS, 'Budget 2001: Closing the Gap', *ACOSS Paper* 112 (Sydney: ACOSS, February 2001), p.7.
- <sup>112</sup> ACOSS, 'Budget 2001: Closing the Gap', p.28. ABS estimates the average income of all households to be \$45,473, so the ACOSS target group does not earn much above the average.
- <sup>113</sup> ACOSS, 'Towards a Fair and Inclusive Australia', *ACOSS Paper* 119 (Sydney: ACOSS, February 2002), pp.5-7. We consider the idea of 'fairness' implied in statements like these in Chapter Four.
- <sup>114</sup> ACOSS, 'Budget 2001: Closing the Gap', pp.27-8.
- <sup>115</sup> ACOSS, 'Towards a Fair and Inclusive Australia', pp.5-6.
- <sup>116</sup> The mere existence of inequality is taken as evidence that one group is 'excluding' another: 'The very possibility that many inequalities of result are due to inequalities of causes . . . is sweepingly dismissed . . . so that statistics on unequal outcomes become automatic indictments of 'society', Thomas Sowell, *The Vision of the Anointed: Self-congratulations as a Basis for Social Policy* (New York: Basic Books, 1994), p.245.
- <sup>117</sup> Peter Travers and Sue Richardson, *Living Decently: Material Wellbeing in Australia* (Melbourne: Oxford University Press, Melbourne, 1993).

- <sup>118</sup> P. Travers and S. Richardson, *Living Decently: Material Wellbeing in Australia*, pp.153, 155.
- <sup>119</sup> R. Bray, 'Hardship in Australia', (see note 70).
- <sup>120</sup> T. Burchardt, 'Social Exclusion', p.400, (see note 98).
- <sup>121</sup> There is a parallel here with Richard Dawkins' work on 'memes'. See R. Dawkins, *The Selfish Gene* (Oxford: Oxford University Press, 1976); Susan Blackmore, 'The Power of Memes', *Scientific American* 283 (New York: *Scientific American*, October 2000), pp.52-61. Using Darwinian insights, Dawkins sees human brains as the 'hosts' through which units of culture ('memes') 'replicate'. Like viruses, memes jump from brain to brain through a process of imitation, replicating and sometimes 'mutating' as they get 'expressed' over and over through verbal, written and electronic communication. The evolution and spread of the idea of 'social exclusion' is an example of this process. The meme originated in the specific conditions of France in the 1970s, but within two decades it had adapted to, and become widely established in, the very different policy environment of Australia. Here it has thrived because it is has proved so adaptable. It has been applied in all sorts of situations to all sorts of problems for all sorts of different purposes, and increasing numbers of hosts have therefore given it expression. This has in turn enabled it to spread (replicate) even further and to evolve (mutate) to become even more adaptable. The result of all this replication and mutation is that it does not actually explain anything any more—it does not even refer to anything real, and it serves no useful purpose but it continues to thrive because of its adaptability.
- <sup>122</sup> D. Green, *Benefit Dependency*, p.41.
- <sup>123</sup> D. Green, *Benefit Dependency*, p.41.
- <sup>124</sup> Tania Burchardt and Julian Le Grand, 'Constraint and Opportunity: Identifying Voluntary Non-employment', *Centre for Analysis of Social Exclusion Discussion Paper* No. 55 (London: CASE, April 2002).
- <sup>125</sup> See Bettina Arndt, 'Work Can't Be a Four-letter Word Any More', *The Sydney Morning Herald* (5 October 2002).
- <sup>126</sup> Peter Saunders† and Wendy Stone, 'Australian Youth and the Dependency Culture' in P. Saunders† (ed), *Reforming the Australian Welfare State* (Melbourne: Australian Institute of Family Studies, 2000).
- <sup>127</sup> Productivity Commission, *Independent Review of Job Network*, (Canberra: Productivity Commission, 2002).
- <sup>128</sup> Belinda Probert, head of social sciences at RMIT, told her audience in a public lecture (reprinted in *The Sydney Morning Herald*) that,

'There are no jobs', and she attacked what she saw as the attempt by recent governments to distinguish between 'deserving' and 'undeserving' cases ('Growing Underclass Demands a Fairer Australia', 14 March 2001). Former head of ACOSS Michael Raper is not quite so dogmatic. He merely emphasises that there are insufficient jobs available for the unemployed to fill ('more than six unemployed people for every job vacancy'), but like Probert he dismisses as 'morally repugnant' the idea that some income support claimants may be 'undeserving'. See 'Examining the Assumptions Behind the Welfare Review' in P. Saunders† (ed), *Reforming the Australian Welfare State*, p.266. A report from the Committee for Economic Development of Australia criticises the 'increasingly conditional or moralised approach to income support' as based on 'an invidious distinction between the working and non-working poor'. See L. Hancock, B. Howe, M. Frere and A. O'Donnell (eds), *Future Directions in Australian Social Policy* (Melbourne: CEDA, 2001), p.5.

<sup>129</sup> Peter Saunders\*, *The Ends and Means of Welfare*, (see note 1), thinks that requiring welfare claimants to work mixes up the ends and means of social policy—the ends should be to provide everybody with a decent income, and we should recognise that work is only one means to that goal while welfare is another. He disagrees with attaching work conditions to receipt of benefits and even argues that those who do not wish to work should still be entitled to claim an unconditional basic benefit. Fiona MacDonald and Don Siemon similarly insist that 'employment is not an absolute end in itself' and that mutual obligation requirements only 'make life harder for those people who are unemployed'. See 'Families, Work and Welfare', in P. Saunders† (ed), *Reforming the Australian Welfare State*, pp. 218, 220, (see note 126).

<sup>130</sup> There is widespread support for education and training aimed at unemployed people, for example: "Training and education can prepare people for work and a responsive welfare system can support people as they balance different combinations of employment and other activities." See F. MacDonald and D. Siemon, 'Families, Work and Welfare', p.222. But there is resistance to compulsion, and the idea that it is legitimate for people to claim welfare in order to spend time on 'other activities' (rather than working) is surprisingly widespread. One recent study reported in *The Sydney Morning Herald* explicitly attacked the idea that single mothers should be required to take work or training once their children enter their

- teens on the grounds that the extra income would not compensate them for their 'lost time' at home! See 'Work Does Not Pay For Solo Mothers', (15 August 2002).
- <sup>131</sup> The phrase is from Don Arthur (<http://donarthur.blogspot.com/>, 9 August 2002); a more familiar term of disdain is to refer to 'Mac-jobs' or 'hamburger flipping' as if nobody should be expected to take employment in the unglamorous service industries. How these writers expect to get their streets cleaned or their public toilets maintained (or, indeed, their hamburgers flipped) is never made clear.
- <sup>132</sup> 'ACOSS believes that the burden of obligation in the Work for the Dole program rests too heavily on the unemployed person and that the government has failed its obligation to provide participants with the opportunity to improve their prospects'. See Michael Raper, 'Examining the Assumptions Behind the Welfare Review' in P. Saunders, *Reforming the Australian Welfare State*, pp.264-5. See also ACOSS, 'The Obligation is Mutual', *ACOSS Paper* 120 (Sydney: ACOSS, February 2002).
- <sup>133</sup> Penalties for breaching work-for-the-dole conditions have been under sustained attack from the social policy establishment for some time. Penalties can result in an 18% cut in dole payments for six months, increasing to a 24% cut for a second breach, and complete cessation of payments for an eight week period for a third breach. In March 2002, a report sponsored by ACOSS and various individual charities attacked these penalties as 'harsh'. See D. Pearce, J. Disney and H. Rideout, *Making it Work* (Sydney: Independent Review of Breaches and Penalties in the Social Security System, June 2002). In June the Brotherhood of St Laurence published a survey which claimed to have found that two-thirds of Australians thought the penalties for breaching were 'unfair'. See Stephen Ziguras and Charne Flowers, *The Community Expects...* (Melbourne: Brotherhood of St Laurence, 2002). *The Sydney Morning Herald's* social affairs correspondent, Adele Horin, has described the breaching rules as 'cruel and unusual punishment' that 'reduces people to destitution' (16-17 March 2002), p.35.
- <sup>134</sup> In *The Ends and Means of Welfare*, Saunders\* argues for higher taxes on higher income groups, a clamp-down on tax evasion, new capital transfer or inheritance taxes, a minimum wage, a reduction in maximum permitted working hours, an end to compulsory work requirements in the welfare system and an increase in benefits. See also Belinda Probert who calls for 'considerably higher levels of

- taxation' and higher welfare spending ('Growing Underclass Demands a Fairer Australia', see note 128).
- <sup>135</sup> 'In relative terms, increases of incomes of the poor during the past decade have been minor compared with those at the top. In other words, the gap has widened. This has bad consequences for social cohesion as well as people's ability to participate in society. Hence there is a need to "bridge the gap"'. From a letter from Rob Simons of The Smith Family in *Business Review Weekly* (28 Feb-6 March 2002).
- <sup>136</sup> Peter Saunders\*, *The Ends and the Means of Welfare*, p.202, (see note 1).
- <sup>137</sup> Ross Garnaut, 'Equity and Australian Development', Paper to the Conference 'Towards Opportunity and Prosperity' (University of Melbourne, 4-5 April 2002), p.12.
- <sup>138</sup> We are indebted to James Cox for these observations.
- <sup>139</sup> The phrase 'a fair go' has been taken over by socialists and redefined to mean egalitarianism and income redistribution. On the very first page of his new book, for example, Peter Saunders\* writes: 'The most commonly claimed characteristic of Australian society is its emphasis on the "fair go" egalitarian spirit', and he follows this up with another mention two pages later while also defending the term in the Preface, *The Ends and Means of Welfare*, pp.3, 5, vi.
- <sup>140</sup> P. Saunders\*, *The Ends and Means of Welfare*, p.73.
- <sup>141</sup> <http://www.roymorgan.com.au/polls/2001/3465/>. 30% mentioned tax changes; 12% explicitly called for tax cuts.
- <sup>142</sup> Simon Blount, 'The "Fair Go" in Australia', *Policy* 16:4 (Summer 2000-01), pp.13-7.
- <sup>143</sup> *The Weekend Australian* (17-18 June 2000). Australians may not be alone in this. A recent experimental American research reported in *The Economist* (16 February 2002), p. 65, found that a majority of people will act to impoverish themselves if that is what it takes to reduce the incomes of others who have more than they do.
- <sup>144</sup> Sam Brittan, *Financial Times* (13 February 2002).
- <sup>145</sup> P. Saunders\*, *The Ends and Means of Welfare*, p.203, (see note 1).
- <sup>146</sup> ABS, *Measuring Australia's Progress*, p.40, (see note 38).
- <sup>147</sup> Survey carried out in January 2000. Results available at [www.newspoll.com.au](http://www.newspoll.com.au).
- <sup>148</sup> Megan Mitchell, 'Poverty and Inequality: Why It Matters' and Noel Preston, 'Justice the Yardstick, Not Equality', both published in *On Line Opinion* (July 2002), [www.onlineopinion.com.au/2002/jul02/](http://www.onlineopinion.com.au/2002/jul02/)

- <sup>149</sup> P. Bone, 'Egalitarian Politics Aren't Playing Fair', *The Age* (8 July 2002). In *The Fatal Conceit* (London: Routledge, 1992), F.A. Hayek develops an interesting insight into why so many of us seem to feel the instinctive appeal of egalitarianism. He believes it may have evolved during the long hunter-gatherer period of human history when survival would have depended on sharing. With the development of the 'spontaneous order' of market economies, however, such an instinct has become anachronistic (and in his view, positively harmful—as in the experience of the socialist command economies). Pamela Bone does not reflect on such questions.
- <sup>150</sup> J. Rawls, *A Theory of Justice* (Oxford: Oxford University Press, 1972). Rawls invites us to imagine what distribution of resources we would all agree to if we had to operate in an 'original position', behind a 'veil of ignorance', such that nobody knew what position they would occupy in the society they were designing. His answer is that we would agree to a presumption of equality of rights and resources, modified only by the 'Difference Principle' (basically the principle that inequality is only justified if it can be shown that it is a necessary condition for improving the situation of the poorest).
- <sup>151</sup> See Peter Saunders†, *Social Class and Stratification* (London: Routledge, 1990), ch.3.
- <sup>152</sup> R. Nozick, *Anarchy, State and Utopia* (Oxford: Basil Blackwell, 1974). Nozick points out that Rawls treats resources as if they are simply lying around waiting to be claimed. In reality, however, people have normally already established entitlement to them, either as a result of 'just appropriation' (for example, discovering and developing them), or 'just transfer' (for example, sale and bequest).
- <sup>153</sup> All three are incompatible, although commentators like Pamela Bone (who appears to favour both egalitarianism and meritocracy) often do not realise it. Egalitarianism runs counter to meritocracy because it seeks to reallocate resources that people have acquired through their own talents and effort in order to bring about a more equal distribution across the population. Egalitarianism runs counter to liberalism because it fails to recognise the overriding legitimacy of the principle of entitlement. Liberalism runs counter to meritocracy because it refuses to limit the criteria of eligibility to talent and personal effort (Hayek, for example, accepts that mere luck can be enough to establish entitlement). I have discussed these three ethical principles at more length in P. Saunders†, *Unequal But Fair?* (London: Institute of Economic Affairs, 1996), ch.9, where I also

- report the results of an English survey suggesting that about 50% of the population support an egalitarian ethic, 50% support a liberal ethic, but 90% support a meritocratic ethic.
- <sup>154</sup> It is worth noting in this regard that the SPRC's Peter Saunders tries to divide the Australian population into 'collectivists', 'individualists' and 'fatalists' according to their responses to various attitude questions, but he finds substantial overlap between these categories. Sharp distinctions between competing ethical and philosophical positions do not prevent many people from embracing them all simultaneously!
- <sup>155</sup> David Green has written with insight of the tendency to equate socialism with morality and of the difficulty left intellectuals have in coming to terms with the morality of competing positions: 'Socialism is seen as being on a higher moral plain than capitalism . . . For decades capitalism has been characterised as callous and uncaring and socialism as humanitarian. The result is that it takes quite an effort for intellectuals to break with socialism because, at first, the choice seems to be as stark as that between good and evil'. See D. Green, *Equalizing People* (London: Institute of Economic Affairs, 1990), p.3.
- <sup>156</sup> For example, Peter Saunders\* opens his latest book on welfare policy with a bitter attack on Australia's political leaders whom he accuses of 'deceit and denial'. *The Ends and Means of Welfare*, p.3, (see note 1).
- <sup>157</sup> *The Weekend Australian* (17-18 June 2000), p.24; W. Stone and J. Hughes, 'Understanding Community Strengths', *Family Matters*, 61(2002), p.66; *The Australian* (15 May 2001).
- <sup>158</sup> Gianni Zappala, Vanessa Green and Ben Parker, 'Social Exclusion and Disadvantage in the New Economy', *Working Paper* No.2 (Camperdown: The Smith Family, 2000), p.2.
- <sup>159</sup> See, for example, Richard Eckersley, 'Redefining Progress', *Family Matters* 51 (1998), pp.6-12.
- <sup>160</sup> Peter Travers and Sue Richardson, *Material Wellbeing in Australia* (Melbourne: Oxford University Press, 1993), p.73, report that the distribution of incomes became increasingly equal right up to 1981, after which inequality increased slightly. Most indicators of social pathology started moving upwards long before the 1980s, however property crimes, for example, lurched upwards from the 1950s and male youth suicides started rising significantly in the 1960s. See J. Buckingham, L. Sullivan and H. Hughes, *State of the Nation* (Sydney: The Centre for Independent Studies, 2001), pp. 57, 96.



- The start of the pathologies thus predates any increase in inequality by about 20 years.
- <sup>161</sup> Evidence from the International Crime Victim Survey shows that Australia has one of the highest rates of crime of all the industrialised countries. In 1991, 29% of Australians reported having been a crime victim as compared with 26% of Americans, and trends in the two countries have been going in opposite directions ever since. See [http://rulj287.leidenuniv.nl/group/jfcr/www/icvs/data/i\\_VIC.HTM](http://rulj287.leidenuniv.nl/group/jfcr/www/icvs/data/i_VIC.HTM). For a discussion of the factors behind the falling crime rate in the US during the 1990s, see P. Grabosky, *Zero Tolerance Policing* (Canberra: Australian Institute of Criminology, 1999).
- <sup>162</sup> E. Durkheim, *The Division of Labour in Society* (Toronto: Macmillan, 1933).
- <sup>163</sup> R. Wilkinson, *Unhealthy Societies* (London, Routledge, 1996) p.75.
- <sup>164</sup> See for example Julie Macken, 'For Richer, For Poorer, in Sickness and in Health', *The Australian Financial Review* (13 February 2002), p.52. Similar ideas lie behind the Australia Institute's 'Genuine Progress Indicator, which purports to show that the quality of life is deteriorating even as national wealth increases (Clive Hamilton and Richard Denniss, 'Tracking Well-being in Australia', *The Australia Institute Discussion Paper* No.35 (Canberra: The Australia Institute, 2000).
- <sup>165</sup> Johan Mackenbach, 'Income Inequality and Population Health', *British Medical Journal* 324:5 (January 2002), pp.1-2. Thanks to Rob Bray for bringing this paper to our attention.
- <sup>166</sup> One reason why the social policy community is so resistant to claims that poverty affects only a small number of people may be that evidence of widespread self-reliance rather undermines the case for the existence of so large a social policy community. As Michael Duffy has rather brutally observed: 'If the sheep can look after themselves they will not need shepherds. This is why those on the Left lie so persistently and outrageously about the prevalence of poverty and inequality in Australia, even though everyone in the country by any objective standard is far better off today than they were ten years ago'. See *The Australian* (7 October 2002).
- <sup>167</sup> Peter Saunders\*, 'Household Income and its Distribution', *Commonwealth Year Book* (Canberra: ABS, 2001), Table C5.4. Note that only 56% of gross household income in 1998-99 was made up of wages and salaries; income tax thus takes much more than 14.7% of people's earned incomes.

- <sup>168</sup> 'Many families appear heavily welfare dependent when their earnings before tax in fact match their needs and their final incomes.' See L. Sullivan, *Behavioural Poverty*, p.47, (see note 95).
- <sup>169</sup> Lucy Sullivan, *Taxing the Family* (Sydney: The Centre for Independent Studies, 2001), Appendix, Table 2.4.1.
- <sup>170</sup> This point is explored more fully in Peter Saunders†, 'What Future for Welfare?', *Free Market Foundation Occasional Paper* No.11 (2002), available from FME, PO Box 785121, Sandton 2146, South Africa—revised version forthcoming in *Australian Social Policy Journal*.
- <sup>171</sup> James Cox, *Middle Class Welfare* (Wellington: New Zealand Business Round Table, 2001).
- <sup>172</sup> Peter Saunders†, *Capitalism: A Social Audit* (Buckingham: Open University Press, 1995).
- <sup>173</sup> Jennifer Buckingham, *Families Freedom and Education* (Sydney: The Centre for Independent Studies, 2001).
- <sup>174</sup> Barry Maley, *Family & Marriage in Australia* (Sydney: The Centre for Independent Studies, 2001).
- <sup>175</sup> For an initial discussion of compulsory saving and asset-based welfare, see P. Saunders†, *What Future for Welfare?*
- <sup>176</sup> A. Harding et al, *Financial Disadvantage in Australia*, Table 3, (see note 19).
- <sup>177</sup> Reference Group on Welfare Reform, *Participation Support for a More Equitable Society*, p.12, (see note 101).
- <sup>178</sup> P. Saunders\*, *The Ends and Means of Welfare*, p.96, (see note 1).
- <sup>179</sup> See Mark Wooden, 'Industrial Relations Reform and the Consequences for Working Time, Job Security, Productivity and Jobs', paper presented at *Towards Opportunity and Prosperity*, Melbourne Institute Social and Economic Outlook Conference in association with *The Australian*, (4-5 April 2002).
- <sup>180</sup> See, for example, Kayoko Tsumori, 'Poor Laws I: The Unfair Dismissal Laws and Long-term Unemployment', *Issue Analysis* No.26 (Sydney: The Centre for Independent Studies, 2002).
- <sup>181</sup> One major issue is the disincentive effect of very high effective marginal tax rates as people move from benefits into employment. Because so many benefits are means-tested, and because income tax now kicks in at such low income levels, people often find that they are little better off working than they were when they were reliant on welfare. See Peter Dawkins, 'Labour Market Issues in Welfare Reform' in P. Saunders† (ed), *Reforming the Australian Welfare State*, (see note 126).

- <sup>182</sup> The government has encountered enormous opposition in its attempts to tighten up the eligibility criteria for the Disability Support Pension (DSP), but it is clear that some current claimants could participate effectively in the labour market. The number of Australians of working age claiming the Pension has trebled in the last 20 years to more than 630,000—more than 6% of the workforce. See Ernest Healy, 'Disability or Disadvantage', *People and Place* 10 (Melbourne: Centre for Population and Urban Research, 2002), pp.68-83. Much of this increase is accounted for by people with back problems or mental health problems such as depression, and it strains credulity to suggest that a three-fold increase in 20 years is entirely due to a massive expansion of the rate of disability in the population. There is little doubt that at least some of the increase has been brought about by older workers moving from the unemployment rolls onto the DSP (the DSP pays more than the Jobseeker's Allowance and currently carries no work or training mutual obligation requirements).
- <sup>183</sup> International evidence suggests that training schemes that are devised to help welfare claimants find employment are only really effective in helping mature women who are returning to the workforce after raising children and who need to renew their skills. Groups like the young unemployed and mature unemployed men are not helped much, if at all, by such schemes. See David Kalisch, 'Welfare to Work: A Review of International Practices and Outcomes', a Paper to the seminar on welfare reform (University of Melbourne, 25 January, 2000); J. Martin, 'What Works Among Active Labour Market Policies', *Unemployment and the Australian Labour Market* (Canberra: Reserve Bank of Australia/ANU, 1998), pp. 276-302.
- <sup>184</sup> The McLure report's recommendation that the current distinction between benefits and pensions should be abolished in a move to a new 'participation allowance' would in our view be a retrograde step precisely because it would further reinforce this resistance to drawing distinctions according to the *reasons* why claimants require help. See Reference Group on Welfare Reform, *Participation Support for a More Equitable Society*, (see note 101).
- <sup>185</sup> 'It may be desirable to try to avoid the current approach to welfare provision, with all its administrative complexity and breaching controversies, by providing a minimal level of social protection on a non-conditional basis . . . There may be advantages in allowing those with the weakest attachment to the world of work to "opt

- out". See P. Saunders\*, *The Ends and Means of Welfare*, pp.257-8, (see note 1).
- <sup>186</sup> M. New, 'Welfare Reform That Works', *Policy Analysis* No. 435 (Washington DC: CATO Institute, 2002).
- <sup>187</sup> P. Loprest and S. Brauner, 'Where Are They Now?', *New Federalism* 6 (Washington: Urban Institute, 1999).
- <sup>188</sup> D. Butler, 'Assessing the Effects of Welfare Reform Policies on Low Income Families', Paper presented at Melbourne Institute/FaCS conference on welfare reform (University of Melbourne, 9-10 November 2000).
- <sup>189</sup> Melanie Phillips, *America's Social Revolution* (London: Civitas, 2001).
- <sup>190</sup> D. Besharov. and P. Germanis, 'Welfare Reform: Four Years Later', in A. Deacon (ed), *Ending Dependency: Lessons From Welfare Reform in the USA* (London: Civitas, 2001).
- <sup>191</sup> D. Besharov, 'Welfare Rolls: On the Rise Again', *Washington Post* (16 July 2002), p.A17.
- <sup>192</sup> Peter Saunders\*, for example, accepts that American policies have resulted in much lower levels of unemployment and welfare dependency than in Australia, but he insists without further argument that the US approach 'is not an acceptable option for Australia'. See *The Ends and Means of Welfare*, p.253, (see note 1).
- <sup>193</sup> P. Saunders\*, *The Ends and Means of Welfare*, p.52.

# Index

*Note:* Numbers in brackets following endnote references indicate the page on which the endnote appears in the text eg. 94 n.7 (4).

- Absolute poverty, 2-4, 6, 8,  
94 n.7(4), 94 n.13(8) (*see also* Poverty, Subsistence)
- Anglicare Australia, 18
- Asset-based welfare (*see* Saving, compulsory)
- Australian Bureau of Statistics (ABS), xiii, 19, 20, 24, 30, 32, 35, 36, 59, 73, problems with income data, 37-41, 102 n.81(41)
- Australian Council of Social Service (ACOSS), 19, 43, 53, 54, 57-8, 68, 74
- Barrett, Garry, 34
- Besharov, Douglas, 90
- Bittman, Michael, 53-5
- Black economy, 32-33
- Blaming the victim (*see* Responsibility, personal)
- Blount, Simon, 72
- Bone, Pamela, 75
- Bray, Robert, 34, 35, 37, 43, 59
- Breusch, Trevor, 25
- Brittan, Sam, 73
- Burchardt, Tania, 60
- Capabilities/ capacity for action, xii-xiii, 53, 64, 65
- Centre for Analysis of Social Exclusion, 66
- Charity, 49
- Childcare, 67, 85
- Citizenship, 49, 52, 60 (*see also* Social cohesion)
- Compassion, 42, 43-4, 66
- Cox, James, 20
- Crime, 78, 79, 90, 112 n.161(79)
- Crossley, Thomas, 34
- Culture  
differences, 6 (*see also* Individualism)  
of poverty, 50
- Data quality (*see* Statistics)
- Dawkins, Peter, xi-xiv
- Deprivation  
index, 47, 58-9  
information, 3, 53  
lifestyle, 45-6, 47, 49, 59  
multiple, 37, 43, 46, 50, 52, 60-1
- Disability, 63, 87,  
114 n.182(88)

- Drug abuse, 48, 55, 56-7, 63, 78
- Dunne, Lyle, 15
- Durkheim, Emile, 79
- Education, xii, 3, 28, 29, 50, 56, 63, 76, 78, 83, 85
- Employment (*see also* Unemployment)
  - opportunities, 50, 56-7, 66, 87, 106 n.128(66)
  - solution to poverty, xiii, 86-90
  - training, 66, 67, 87-8, 107 n.130(67), 114 n.183(88)
- Equality (*see also* Inequality, Social cohesion/solidarity)
  - egalitarianism, 19, 64, 69, 70, 72-3, 75-7, 81, 92, 110 n.149(75)
  - morality of, 69, 75-7, 110 n.153(76), 111 n.155(77)
  - public opinion, 72-4, 76-7
  - redistribution of incomes, 57-8, 63-4, 68-81, 89, 91-2 (*see also* Income distribution)
  - rights and status, 70
- Eurostat, 34
- Expenditure by low income households, 24, 30-6, 42
- Fairness, 57, 64, 69, 75, 76, 79
  - 'fair go' in Australian culture, 69-70, 72, 92, 109 n.139(70)
- Garnaut, Ross, 70
- Germanis, Peter, 90
- Giddens, Anthony, 55
- Gini coefficient, 28, 35, 99 n.50(28)
- Globalisation, 66
- Gordon, David, 55, 94 n.13(8)
- Government (*see also* State, role of)
  - expenditure (*see* Welfare state, cost of)
  - regulation, 54
  - services, value of, 24, 27-30, 42 (*see also* Welfare state)
- Green, David, 27, 65-6
- Greenwell, Harry, 32, 34
- Growth, economic, 5, 6, 83, 85, 87, 90
- Harding, Ann, xi, 28-9, 30, 32, 34
- Hayek, Friedrich, 110 n.149(75)
- Health, xii, xiii, 3, 28, 29-30, 50, 56, 80-1, 83, 85
- Henderson, Ronald, 9-10, 21, 23, 46, 82
- Henry, Ken, xii
- Housing, 3, 20, 83, 96 n.33(16)
- Hughes, Helen, 30, 32, 42
- Hughes, Jody, 78
- Income (*see also* Statistics, adequacy of)
  - basic family wage, 9, 70
  - change over time, 6, 9, 14, 19, 46, 73-4, 79
  - distribution ('income gap')
    - 6, 13, 14, 16, 17, 18, 19, 26, 27-8, 38-9, 57-8, 69, 70, 73-4, 75-6, 78, 109 n.135(69) (*see*

- also* Equality, redistribution of income)  
equivalised, 8, 12, 26,  
96 n.24(12), 98 n.44(23)  
estimates, 30-36  
final income, 27-30,  
99 n.49(27),  
99-100 n.51(28)  
lifetime patterns, 25-7, 41-  
2, 82
- Individualism, 49
- Inequality (*see also* Equality,  
income distribution)  
affect on health, 80-1  
change over time, xiii, 19,  
34-5, 40-1, 79  
confused with poverty, xii,  
6, 15-19, 20, 51  
definition, 15  
international comparisons,  
17, 96-7 n.33(16)  
opposition to, 68-9, 71, 73
- Insurance, social, 17, 48, 51-2,  
96-7 n.33(16) (*see also*  
Retirement, Unemployment,  
insurance)
- Jackson, Jesse, 66  
Jesuit, David, 16  
Johnson, David, 28
- Labour market reform, 87  
Language, politics of, 51-2, 54,  
60, 61, 104 n.100(51)  
Lenoir, René, 48, 52  
Lifecycle (*see* Income, lifetime  
patterns)
- Marginality (social), 48 (*see also*  
Participation)
- Marx, Karl, 79
- McCallum, Andrew, 43  
McClure Report, 53, 86,  
114 n.184(88)  
Megalogenis, George, 56  
Melbourne Institute, xii, xiii  
Meritocracy, 76, 110-11 n.153(76)  
Mission Australia, 52  
Mitchell, Deborah, 25  
Mobility in and out of poverty  
(‘churning’), 24-7, 41-2, 99  
n.48(25)
- Mutual obligation, 63, 66, 67-  
8, 88, 107 n.129(67),  
108 n.132(67)  
breaching penalties, 67,  
108 n.133(67),  
114-15 n.185(88)
- National Centre for Social &  
Economic Modelling  
(NATSEM), xi, 13, 23, 24,  
29, 32, 33, 35, 36, 37, 39,  
40-1, 42, 82, 86
- Nozick, Robert, 75-6,  
110 n.152(75)
- Orwell, George, 51
- Parents, single, 48, 55, 59, 63, 67,  
88, 90, 107-8 n.130(67)  
parenting payment, 85
- Participation, 18-19, 26, 43,  
46-7, 48, 52-4, 55-6, 58-  
60 (*see also* Social exclusion)
- ‘Politics of envy’, 58, 73
- Popper, Karl, 41
- Poverty (*see also* Absolute  
poverty, Inequality,  
Poverty line, Relative  
poverty, Statistics,  
adequacy of)

- Poverty
- behavioural, 2, 7, 50, 56, 64, 67, 105 n.109(56)
  - causes, xi, xiii, 7, 50-1, 63-6, 86
  - change over time, 13-14, 19
  - child, xiii, 1, 89-90
  - definition, xii, 1-4, 5, 6, 8, 15, 20, 21, 23, 26-7, 47
  - extent of, 9, 10, 11-12, 13, 14, 16, 21, 23, 27, 34-6, 37, 41-3, 47, 81-2
  - ideology, 1-2, 16, 20, 21, 37, 41, 46, 51, 66
  - inter-generational transmission, 50
  - international evidence, 3, 12, 15-17, 25
  - measurement, xi, xii, xiv, 6-15, 19, 20, 23, 60
  - policy, xi, xiii, 15, 18, 44, 63-4, 67-9, 81, 87-90, 91-2, 103 n.89(47) (*see also* Welfare state, reform)
  - public's understanding of, 1, 2, 7-9
  - turnover (*see* Mobility)
- Poverty line
- arbitrary, 20
  - consensual/subjective approach, 7-9, 23, 43, 82, 94-5 n.16(9)
  - expenditure-based, 33-6, 42
  - inflated over time, 9, 21, 95 n.20(10)
  - lifestyle-based, 47, 59
  - minimum income approach ('budget standard'), 7, 9-12, 21, 23, 46
  - percent of mean income, 13-15
  - percent of median income, 12, 15, 16, 23
- Power/empowerment, 51, 54, 64, 85
- Productivity Commission, 66
- Progress, 38, 112 n.164(81)
- Property rights, 56
- Pusey, Michael, 77
- Rawls, John, 75-6, 110 n.150(75)
- Redistribution (*see* Equality)
- Relative poverty, xii, 4-19, 20, 26, 41, 60, 80 (*see also* Poverty)
- Responsibility, personal, 50-1, 52, 54-7, 64-6, 67, 68, 85, 88, 90, 106-7 n.128(66) (*see also* Self-help)
- Retirement
- state pensions, 96-7 n.33(16)
  - superannuation, 83, 85-6
- Richardson, Sue, 58-9
- Robinson, Colin, 43
- Saunders, Peter (CIS), xi, xii, xiv
- Saunders, Peter (SPRC), xi, 4, 8, 9, 20, 29, 37, 40, 42, 43, 56, 71, 73, 86, 88
- Saving, compulsory, 86, 92 (*see also* Retirement, superannuation)
- Self-employed, 26, 33, 36, 38
- Self-help, 49, 63-8, 70, 79, 81-90, 92
- Self-provisioning, 83-6, 92
- Sen, Amartya, xii-xiii, 3, 6
- Silver, Hilary, 49
- Smeeding, Timothy, 16
- Smith Family, The, xi, 13, 18, 23, 24, 33, 35, 37, 40, 42, 53, 54, 78, 82, 86



- Social cohesion/solidarity, 18,  
48, 49, 52, 60, 69, 77-80,  
90, 92
- Social exclusion, 45-61, 78 (*see also* Participation)  
definition, xii, 45-6, 53, 60  
different from poverty, 45-  
6, 49-51  
existence of, xiii, 26, 54, 58-  
60, 61  
extent of, 45, 54-6, 60-1  
ideology, 46, 60,  
106 n.121(61)  
indicators, 53, 59-60,  
104 n.102(53)  
origins of concept, 46-9, 51  
policy, 48, 57-8, 61
- Social justice, 75-6 (*see also* Fairness)
- Social policy establishment (*see*  
Welfare lobby)
- Social Policy Research Centre  
(SPRC), xi, 4, 10-12, 21,  
23, 46, 53, 68
- Social wage (*see* Government  
services, value of)
- Society of St Vincent de Paul,  
43, 78
- State, role of, 49
- Statistics, adequacy of  
income, xii, 16, 17, 25,  
30-41, 42 (*see also*  
Income estimates)  
poverty, 2, 19, 42, 43-4,  
101-2 n.79(40),  
102-3 n.85(42)  
(*see also* Poverty,  
extent of)
- Stone, Wendy, 78
- Subsistence, 2-4, 20
- Sullivan, Lucy, 56, 84
- Superannuation (*see* Retirement)
- Taxation  
effective marginal tax rates,  
113 n.181(88)  
higher earners, 15, 18, 57-8,  
68, 108-9 n.134(68)  
increased, 84-5, 89, 91  
public opinion, 71-2, 73  
reduction, 82, 83, 85, 92  
tax credits, 85, 90
- Thompson, Elaine, 69
- Time, shortage of, 54
- Townsend, Peter, 47, 48, 52, 58
- Training, (*see* Employment,  
training)
- Travers, Peter, 58-9
- Tsumori, Kayoko, xi, xii, xiv
- Unemployment, xii, xiii, 48, 55,  
87 (*see also* Employment  
opportunities)  
causes, 87  
insurance, 83, 85 (*see also*  
Insurance, social)  
voluntary, 66, 87-8
- United Nations, 3
- Uniting *Care*, 43, 74
- Victims (*see* Responsibility)
- Wealth  
inequality, 96 n.31(15)  
national, 4-5, 91
- Welfare lobby/social policy  
intellectuals, 18, 19, 37, 40,  
46, 61, 64-9, 70, 73-4,  
77, 78, 82, 88, 90,  
112 n.166(83)
- Welfare state (*see also* Government  
services, value of,  
Mutual obligation)

- Welfare state  
cost of, 5, 67, 68, 70, 79,  
82, 84, 89, 91  
dependency on, 5, 63, 66,  
70, 84, 90, 91  
distribution of benefits, 30,  
38, 84-5, 99 n.49(27)  
eligibility for benefits, 52,  
67, 89  
fraudulent receipt of  
benefits, 33, 66  
growth of, 63, 83, 89  
necessity of, 81-6, 92  
public opinion, 71-2  
reform, 63, 89-90, 92,  
115 n.192(90)  
value of benefits, 57
- Whiteford, Peter, 17
- Wilkinson, Richard, 80-1
- Work for the dole (*see* Mutual  
obligation)
- Worswick, Christopher, 34
- Zappala, Gianni, 53

# The Centre for Independent Studies

THE CENTRE FOR INDEPENDENT STUDIES is a non-profit, public policy research institute. Its major concern is with the principles and conditions underlying a free and open society. The Centre's activities cover a wide variety of areas dealing broadly with social and economic policy. It emphasises the role of markets and other voluntary processes in providing many of the goods and services normally supplied by the compulsory methods of government.

The Centre meets the need for informed debate on issues of importance to a free and democratic society in which individuals and business flourish, unhindered by government intervention. In encouraging competition in ideas, The Centre for Independent Studies carries out an activities programme which includes:

- research
- holding lectures, seminars and policy forums
- publishing books and papers
- issuing a quarterly journal, *Policy*

For more information about CIS or to become a member, please contact us:

PO Box 92, ST LEONARDS,  
NSW 1590 AUSTRALIA  
Ph: +61 2 9438 4377  
Fax: +61 2 9439 7310  
Email: [cis@cis.org.au](mailto:cis@cis.org.au)

PO Box 5529, LAMBTON QUAY,  
3785, NEW ZEALAND  
PH: +64 4 499 5861  
FAX: +64 4 499 5940

## Council of Academic Advisers

Professor Ray Ball  
Professor Jeff Bennett  
Professor Geoffrey Brennan  
Professor Lauchlan Chipman  
Professor Kenneth Clements  
Professor David Emanuel  
Professor Ian Harper  
Professor Max Hartwell  
Professor Warren Hogan  
Professor Helen Hughes  
Professor Wolfgang Kasper  
Professor Kenneth Minogue  
Professor R.R. Officer  
Professor Suri Ratnapala  
Professor Steven Schwartz  
Professor Judith Sloan  
Professor Peter Swan  
Professor Geoffrey de Q. Walker