Chapter III
WORK DISINCENTIVES AND INCOME GUARANTEES

Building on the examination of the income maintenance system in Chapter II, which established that the prime purpose of the Australian welfare system was to assist those without employment, this Chapter investigates a number of assumptions about the relationship between paid work and income guarantees.

The income maintenance system which has developed in Australia has been predicated upon a particular set of ideas about people who experience poverty, the length of time people remain in poverty and appropriate ways of dealing with poor people's income needs. Transfers to the more affluent are made through occupational benefits and fiscal policies. They are, in the public mind, disassociated from forms of public assistance paid to the workless.

This Chapter begins by examining the system of occupational and fiscal welfare provisions available to the affluent and their relationship with income guarantees. From there the Chapter considers the assumption that people who work do not require assistance from the state and the idea that welfare assistance is regarded as detrimental to work incentives. This examination requires some consideration of the meaning of the work ethic in the Australian context.

There are other assumptions made about paid work. The first is that employment is the normal state of affairs and that, at least for most people, unemployment is a temporary thing. Coupled with this idea is the demand, enshrined in the Unemployment Benefit, that people be available for employment. The central assumption considered in this Chapter, is the influence that the presence of an income guarantee has on preparedness to work.

Occupational and fiscal welfare:*

In Australia, employment is the central principle of distribution. The division between the workers and the workless goes far beyond the receipt or non-receipt of a wage (1). Some workers as a direct result of their employment receive considerable benefits in addition to their salary. Private business executives often negotiate a salary package which allows them to minimise their tax liability, but which provides them with considerable economic benefits such as entertainment allowances, subsidised travel, cheap accommodation, and other benefits. In recent years there has been a spread downwards of such "fringe benefits". The bank clerk who gets a cheaper loan, the blue collar worker who can purchase a cheaper car from the plant in which he works, are just two examples. Recent taxation amendments have decreased but not eliminated occupational benefits.

* It is sometimes hard to distinguish certain occupational payments from welfare benefits. An example of this is veterans' payments - if some ways they can be seen as closely akin to workers' compensation but they can also be seen as closely associated with the welfare system. Other payments such as those made in some cases of retrenchment are more easily identified as an occupational benefit. Fiscal welfare is poorly understood by the bulk of the workforce who do not have time to investigate the economic significance of tariff policies and farm subsidies.

In Australia, some industries, such as steel and shipbuilding, are subsidised from tax revenue. Both rural and manufacturing industries are assisted through various tariff barriers. The end result is that some workers, shareholders, farm and company owners receive a greater income
than would be the case were the "free play of market forces" the only force determining the government's fiscal policy.

Education and housing are two further major areas where the affluent derive considerably greater benefits than do the bulk of poor people (2). This is because they stay at school longer than do poor people and because most government housing assistance is directed towards private home purchase which requires an applicant to establish the capacity to meet the rest of the cost of the home.

Even in the case of generally available services such as Medibank (now Medicare) the more affluent make a greater call on the available funds than do the poor (3). They go to the doctor more frequently and demand access to specialist services whereas poor people are inclined to attend a doctor's surgery only when acutely ill. The poor are more inclined to accept the general practitioner's opinion as to appropriate treatment. Less affluent rural people due to their distance from medical services, and Aboriginal people living in remote localities, have considerable difficulties in obtaining anything like the medical attention which affluent city dwellers take for granted.

In Australia about 46 percent of men (but only 22 percent of women) are covered by some form of superannuation (4). Superannuатees receive tax concessions which those not covered by this form of welfare are denied. The extent of foregone tax on superannuation in Australia in 1983 was calculated to be between $2,000 and $3,000 million (5). The overwhelming majority of those paying into superannuation schemes are those most able to safeguard their future in that they are in stable employment and reasonably highly paid (6). In the case of younger workers they have a career structure open to them which offers in the longer term well-paid employment. The superannuatee is able to regard his or her superannuation payment as a right irrespective of other income.

The non-superannuated have to rely on the more restricted eligibility requirements of an Aged or Invalid Pension at the end of their working lives. (The justification frequently given for the preferential treatment accorded to superannuatee is that they, at least in part, contribute to this insurance for their future).

**Superannuation and Redistribution (7)**

The history of the Australian social welfare system as recounted in this Chapter is dotted with various attempts by non-Labor administrations to introduce the social insurance principle in preference to the social dividend approach. The Labor Party has traditionally opposed the social insurance form on the grounds that it fails to ensure greater redistribution of income and does not provide protection to those who are either excluded from or only marginally attached to the workforce. On the other hand, non-Labor parties have argued that the social insurance model would remove the idea of people getting something for nothing, promote the work ethic, encourage thrift, lessen stigma and increase self reliance.

The trade union movement, led initially by the Storemen and Packers Union, has sought to extend the superannuation system to all working people. Such an action is in line with the past practices of the trade union movement in that it has aimed for sectional advantage to the membership of particular unions rather than seeking to remove existing inequalities in the occupational welfare system by transferring those advantages to the social welfare system. If, as now appears likely, the Australian Council of Trade Unions succeeds in its productivity case as the basis for funding a nationwide superannuation program, the trade union movement will have won a
very hollow victory. What will have been accomplished is the installation of a system of superannuation benefits to those workers who previously had no superannuation coverage. It will also have improved the superannuation provisions of some workers who had access to inferior schemes but, most importantly, it will leave in place the superior superannuation benefits of the more affluent workers, whilst failing to extend superannuation benefits to the workless. It will simply have succeeded in extending the occupational inequalities into the post work phase of people's lives. It will have done nothing to improve the equity of the social welfare system and it will leave unaffected the inequalities and inadequacies of the workers' compensation provisions, thus continuing, as the trade union movement has long done, to poorly serve the interests of the least affluent Australians.

The trade union movement's push for superannuation benefits will provide another obstacle to improving the social welfare system in that the union movement will have placed itself in a position where it is bound to oppose the removal of taxation benefits from superannuation and like schemes which now, and in the foreseeable future, advantage the more affluent. The existence of such schemes inhibits more just welfare measures because of their immense cost to the nation (8).

It has been estimated that the loss to taxation revenue as a result of concessions granted in respect of occupational benefits is

"probably equivalent to at least one-half of its current expenditure on social security and welfare payments. If all the benefits received by employees, employers and self-employed persons were counted as taxable income, the total amount of taxation revenue foregone would be much higher." (9)

Stretton put this point more starkly when he noted that the foregone tax revenue on occupational benefits conceded to Australians earning over $30,000 amounts to significantly more than any public welfare recipient would receive from the state (10).

The possibility of introducing an income guarantee scheme is complicated by the presence of occupational and fiscal benefits because of the need to mesh them with income guarantee programs. The 1984 assets test debate, the issue of "double dipping", the 1983-84 superannuation strikes, and the 1983-84 Australian Council of Trade Unions' campaign for a National Superannuation Scheme have all been carried out in the context of a clear division in the public mind between social and occupational programs. Each of these confrontations has relevance to an income guarantee program were it to replace or supplement the existing categorical social welfare system.

Clearly, if there is to be a substantial redistribution of income across class boundaries, the advantages of the more affluent will need to be reduced and this is a major reason for raising the issue of occupation benefits. Jamrozik et al in a study on occupational benefits, discuss how these are separated in the public mind from welfare programs and are defined as benefits being earned or provided by employers in return for greater productivity or industrial peace; that is they are invisible welfare (11). This argument is supported by Keens and Cass who note, that the

"identification of the welfare system solely with the system of social security (that is, redistribution to the poor) provides a useful legitimisation for cut-backs in public expenditure for social purposes. The systems of fiscal and occupational welfare remain relatively free from concerted attacks."(12)

Because the majority of occupational and fiscal transfers made to the more affluent are paid by way of a tax refund or by other indirect means, they are not easily observed by the ordinary citizen. And because for the majority of Australian workers their salary alone lifts them well beyond the poverty line it is generally believed that there is a clear divide between workers and
welfare needs, but this is not, nor has it ever been, the case. Social reformers in the late 19th century, the shearsers' strikes of the 1890s and the union struggle which eventually led to the introduction of the "family wage" all pointed to the intimate connection between low wages, large families and poverty. Child endowment, introduced federally in 1942, was paid to all children because of the recognition that workers as well as the workless needed help from the state in maintaining their children. In other words, people in full time paid work may be in need of welfare support, as is apparent from studies showing that by 1972-73 "almost one-third of the non-aged income units below or close to the poverty line had a head who worked full-time throughout the year."(13) Since that time the introduction of the Family Income Supplement (1983) and Family Allowance Supplement (1987) have gone some way towards reducing the number of families who experience poverty even though they have a family member in full-time employment. But the effectiveness of this welfare measure is decreased because less than half of those eligible for family income support apply. Another example of people on low incomes receiving welfare support exists in the fact that the unemployed can be refused Unemployment Benefit if they refuse part-time work, yet they can be denied Unemployment Benefit if they have regular part-time work, even though this does not provide them with a living wage or remove them from poverty.

Income maintenance is just one of many forms of social services which the state supplies to both workers and the workless; these include education, health care, and other services which together add up to the social wage. The recognitions of the connections which exist between paid employment, occupational benefits, fiscal transfers and social welfare provides the background from which to explore the central theme of this Chapter: work, the work ethic and its implications for the provision of income guarantees.
THE WORK ETHIC

Australians consider having a job a very important part of life; their identity is bound up in the work that they do. The social pressure on men to have a job is particularly strong. In periods of economic downturn women, particularly those who have young children, are encouraged to leave work to return to "domestic duties". Such gender inequalities deny women the opportunity to obtain financial rewards from working; they also exclude women from the benefits which flow from public identification with paid employment and drive women back into family occupations which are not publicly valued.

In the same context, work is an hegemonic value in capitalist society which remains unchallenged. There have been fringe groups such as the Yippies (14) which have directly challenged the ideology of work ethic. Hippies, beatniks, bohemians, and Greens in Germany and other conservationists, have seriously questioned the growth economy mentality and also raised queries about the nature of work, without however questioning sufficiently the need to work. Their criticisms centre round the destructiveness of some types of work; they have argued for a redefinition of work and the abolition of all but socially useful employment.

In the Australian context, the 1930s "Susso" marchers demanded the right to work. By the late 1970s various Unemployed Workers Unions had refined this demand to "the right to socially meaningful work".(15)

Whilst the leadership of the Unemployed Worker Unions argues for the abolition of work which is not socially useful, the bulk of the unemployed either willingly take or can be coerced into taking virtually any work which is available. In other words, the work ethic is ingrained in the minds of all Australians, including the unemployed.

The work ethic has placed its stamp on many social policies. Unemployment has been defined as the result of an unwillingness or a reduced willingness to work on the part of those without a job. Frequently the unemployed are berated as dole bludgers and they are paid an amount of welfare which ensures they remain in poverty. It would have been possible to see in the presence of unemployment a number of challenges for society: those workers not required by existing industry could have been provided with training in order to make them more productive in future; they could have been diverted to work on new projects; they could have been integrated into the existing workforce and the increased leisure time shared amongst the entire community. However, none of these developments have taken place in Australia. In fact, opposite trends have occurred with some employers insisting there should be an extension of working hours.

The work ethic is firmly embedded in most welfare programs which seek to provide income maintenance. What is emphasised specifically is the issue of less eligibility as exemplified in regulations implying work enforcement.

Eligibility for Invalid Pension and Sickness Benefit is centred on the establishment of permanent incapacity or temporary sickness. Unemployment Benefit is only payable after an applicant has passed the work test which requires evidence of the applicant's readiness, fitness and willingness to labour. Special Benefit is only payable after an applicant demonstrates an incapacity to maintain him or her self. The Age Pension eligibility requirements presume an inability to continue to work. A Class Widows Pension and Supporting Parents Benefit also presume a limited availability for work because of the responsibilities of caring for children.* The now discontinued B Class Widows Pension presumed an inability to engage in employment because of the length of time the widow has been out of the workforce. The C Class Widows Pension assumes an incapacity to labour as a result of recent grief. It is clear that all the above payments either require a readiness to work, should it become available, or an established or presumed inability to engage in employment.

Work Disincentives
Because so much of the literature and almost all of the political pronouncements which have considered the issue of income guarantees have made much of the alleged reluctance of poor people to go to work should a guaranteed income be introduced, it is necessary to consider the issue of work disincentives in some detail.

The concern about work disincentives flowing from the provision of welfare surfaced long before modern welfare systems were in existence. It was an integral part of the less eligibility debate which influenced so much of the English poor law administration of the 18th, 19th and early 20th centuries. It was a central component in the thinking of the administrators of the Charity Organisation Society in Britain, the United States and


Australia. It is enshrined in the legislation of the Department of Social Security - perhaps most obviously in relation to Unemployment Benefit. It found a very clear expression in the "Workfare not welfare" enunciations of the Nixon and Reagan administrations.(16)

The attention which Daniel Moynihan gives to work disincentives in The Politics of a Guaranteed Minimum Income points to the hegemony of the idea, at least in the United States, that the poor will not work unless they are driven to it in order to survive. As Piven and Cloward comment:

"The basic assumption of classical laissez-faire economic theory - that all people are rational and self-interested - was thus twisted to mean that the rationality and self-interest of the great majorities who were poor could be activated only by economic insecurity."(17)

And further, that

"the affluent exert themselves in response to rewards - to the incentive of increased profitability yielded by lower taxes."(18)

A number of empirical studies have concluded that high rates of income tax do not necessarily result in a decline in preparedness to work amongst the well-to-do (19) though they often lead to increased attempts to avoid, minimise, or evade the tax. In a number of United States income guarantee experiments, no significant difference was found to exist between work disincentive and rates of withdrawal of income guarantees (20). As well there are innumerable examples of poor people working who are, at the same time, receiving welfare assistance. Their marginal rate of tax (income tax plus withdrawal of benefits) often exceeds 100 per cent.

Those who argue that expending money on poor people will only increase their dependency on the welfare system and will exacerbate the poor's "reluctance" to go to work have relied on a number of theoretical justifications. Many such theoretical positions are embedded in individual psychological constructions, but at least one such position arises out of societal explanations of behaviour.

The assumption that the poor will work only if driven to it in order to survive is sometimes coupled with the claim that the poor suffer from "the culture of poverty". Oscar Lewis, who popularised this phrase, used the concept of a culture of poverty to account for the persistence of poverty among slum dwelling Puerto Ricans (21). Central to his conception is the "accepted wisdom" that the poor have little inclination to seek or accept work because they take on self-
defeating attitudes which prevent them from maximising opportunities which would allow them to
find work and thus escape from poverty.

Many studies have pointed to features such as the presence of a large number of children in
families, sole parent (particularly female headed) families and age as prime determinants of the
likelihood of poverty. The Poverty Inquiry (22) noted that people with physical or mental
handicaps were likely to experience long term poverty. Culture of poverty theorists would claim
these are the social conditions essential to the reproduction of poverty. From the 1940s until the
late 1970s unemployment was for most healthy white Australians a temporary difficulty but since
then has become much more of a longer term cause of poverty (23).

"In 1973 fewer than 10,000 people had been unemployed for more than 6 months. Today there are 300,000 unemployed people who have been unemployed for more than 6 months. In 1982 an out-of-work 35-year-old man was, on average, unemployed for 10 months. In December 1984 the average was 15 months. In 1983 27% of those on unemployment benefits were out of work for more than a year. In February 1985 it was 36%."(24)

Notwithstanding this increase in the duration of unemployment, many beneficiaries stay on
benefit for only a short period. For example, a recent study by Dunlop and Thane regarding lone
parents (90 per cent of whom are women) revealed that the length of time an applicant remained in
receipt of this benefit varied from a little over one year to slightly over four years depending on the
applicant's age (25) [See Table 1]

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Class A Widows</th>
<th>Supporting Parents</th>
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<tbody>
<tr>
<td>16 - 19</td>
<td>1.79</td>
<td>1.05</td>
</tr>
<tr>
<td>20 - 24</td>
<td>2.41</td>
<td>1.94</td>
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<tr>
<td>25 - 29</td>
<td>3.55</td>
<td>2.65</td>
</tr>
<tr>
<td>30 - 34</td>
<td>4.47</td>
<td>2.76</td>
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<tr>
<td>35 - 39</td>
<td>5.14</td>
<td>2.77</td>
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<tr>
<td>40 - 44</td>
<td>5.70</td>
<td>3.00</td>
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<tr>
<td>45 - 49</td>
<td>6.20</td>
<td>3.35</td>
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<td>50 - 54</td>
<td>6.56</td>
<td>3.76</td>
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<tr>
<td>55 - 59</td>
<td>7.16</td>
<td>4.34</td>
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(26)

There have been many criticisms made of the concept of a culture of poverty (27). The
main criticisms, relevant to this thesis, concern the failure of the culture of poverty concept to
account in any detailed way for the very thing it sets out to explain - why people are poor, why they
remain poor, and why they do not approach the job search process with the same alacrity of that of
a middle class recent graduate from a prestigious university (28). The main reason the concept of a
culture of poverty is attacked by progressive writers is that it presents the failure of poor people to
move out of poverty in terms of a cultural incapacity located within the poor themselves. In doing
this it mystifies the economic processes which lead to the maldistribution of income and wealth and through this mechanism legitimises the distributive processes in capitalist societies (29). It also fails to account for the fact that large numbers of people experiencing poverty in our society at any particular point in time are no longer experiencing it five years later (30)

Implicit in the assumptions of the culture of poverty concept is the suggestion that the poor are somehow incapable of hard work. But, as Podder notes

"In reality it is found that poor people, in general, work harder than those who can earn higher incomes."(31)

In 1966 when Professor Henderson first established his poverty line in Australia he set it at a little above the then minimum wage (32); that is, some people were poor even though they worked a forty hour week in low paid jobs.

To locate the reasons for poverty in the attitudes of poor people themselves rather than recognise that poor people have little control over the distributive processes which lead to their poverty has been very convenient for those who want to limit the flow of funds to the poor. Ternowetsky found that there was

"little support for the assumption that the work values of the poor are adversely different from those held by other members of society. This finding casts doubt on speculations which link the persistence of poverty to the unwillingness of the poor to work if income support is available."(33)

Ternowetsky did however consider that there were identifiable "non work tendencies" evident among the female poor due to their acceptance of different role expectation (34). A lot of the difference in role expectation derived out of the ideology of motherhood.

Chrissinger, on the other hand, who surveyed clients of the Aid for Dependent Children in Nevada, concluded that there was little difference between the high and low employment groups on forty-nine of the fifty questions exploring the subjects' attitudes to work, concluding that most single mothers had a positive work attitude (35). She found, however, that getting off welfare was less important to them than attaining a good income and she went on to argue that lack of knowledge as to how earned income would affect benefits was a major obstacle to increased employment. This, combined with low levels of allowable earnings before reductions in benefit, helped keep people on welfare (36).

In Australia there was concern about the introduction of the Supporting Mothers Benefit because some felt that this would lead to an increase in ex-nuptial births particularly among very young women in search of incomes for which they did not have to work. However, research done by Kiely, and also by Charlesworth refutes such claims (37). Charlesworth proposes that if the intention is to decrease the number of lone parents who are in receipt of Supporting Parents Benefit, then expanded retraining schemes will be needed (38). Any attempt to encourage women who are supporting parents to undertake employment will be dependent upon increasing the number of jobs which are available (39).

In relation to issues of employment and unemployment, women and young people are at a particular disadvantage compared with adult men. If married women are not working they are rendered invisible, and not defined as unemployed. If they are working and they are married then in some circles they are accused of "taking the jobs of men" whenever there is a downturn in the economy. Young people find themselves abused as "dole bludgers" if they are unemployed, or if working are accused of depressing the adult rate. In times of economic recession the young and women have generally encountered higher rates of unemployment and have made up a far higher percentage of the discouraged workers than have adult men (40).
Research conducted by Paterson for the Bureau of Labour Market Research found that changes in the full-time adult labour market created the teenage unemployment situation (41). The study went on to comment that

"Although Commonwealth unemployment benefit payments are often mentioned as an influence on the youth labour market, analysis indicates that they have had little impact on teenage labour supply or unemployment levels." (42)

This study suggests that young people's willingness to undertake work is not affected by their relatively lower wage structures, nor by increases in the rate of Unemployment Benefit. Structural changes in the full-time labour market have been the major modifying forces in the teenage labour participation rate: this analysis is supported by the preliminary findings of the first large scale longitudinal study of young unemployed Australians (43).

GUARANTEED WORK: ADVANTAGES AND DISADVANTAGES

Providing public employment in such a way that the government becomes an employer of last resort would substantially demystify the work disincentive/welfare benefits debate (44). Such a process would provide work for everybody who wanted it. The reason this approach has not been wholeheartedly adopted in Australia is due to the fact that

"There is an inherent conflict between workfare and welfare policies - between an income support policy and a work incentive policy. The consequence of the dichotomy is that there is an inherent ambivalence in our welfare programs between helping and coercing." (45)

In fact this employer of last resort approach has been adopted selectively in Australia since the 1930s depression. The Whitlam Government's Regional Employment Development Scheme (RED) and the Hawke Government's Community Employment Program (CEP) are examples of such schemes. There are other programs such as the Community Development Employment Project Scheme (CDEP) which in 1984 operated on eighteen isolated Aboriginal communities. The RED and CEP programs insisted that the employees received award wages. The CDEP scheme specifically designed for Aborigines in remote areas is very similar to the 1930s "Susso" programs (46). Aborigines are paid up to the Unemployment Benefit rate. This money is not paid directly to individuals but through the community council which is given an extra 10 per cent to cover administration and materials cost. The originator of the CDEP scheme saw it as the best way to allow Aborigines to maintain their culture and to meet many elders' requirement that younger people should not be paid "sit down money" (47). The program is designed to cope with a rotating workforce and it is recognised that there were social advantages in sharing the available "work" in isolated communities. The maximum number of CDEP workers on any community is determined by Commonwealth Employment officers on their three-monthly visits to a community. Often there will be more people wanting to work than the estimated number and as a result Aborigines on such communities are then paid less than the Unemployment Benefit rate. This is just one of the many ways in which social policies in Australia operate against the interests of rural Aboriginal people.

The central points raised by mainstream economists in Australia against the adoption of the principle of employer of last resort are: the belief that there needs to be a "pool of unemployed", a reserve army, in order to allow circulation within the job market; the fear that the production from government funded jobs will compete with goods produced by local entrepreneurs, and finally the knowledge that there are considerable costs involved in the process of creating jobs (48).
This is an Australian term coined in the 1930s to describe the sustenance or food rations given to the unemployed.

Progressive writers have made social as well as economic criticisms of make-work programs. The 1930s "Susso" programs had a strong element of compulsion. On communities where only the CDEP scheme operates, the family receives no income if the breadwinner does not work. American make-work policies such as Nixon's "Workfare not Welfare" have clearly sought to force some welfare recipients off the welfare rolls. Another criticism which has consistently been made by commentators and by those who have obtained work through such schemes is that many of the jobs which are created are boring and not socially useful.

However, there are social and economic advantages of make-work programs. One benefit which flows from having a government prepared to become an employer of last resort is that equipment which otherwise might stand idle can be brought back into production. Some communally desired objectives such as tree planting or park improvement can be carried out at times when there is a surplus of labour.

Perhaps the most important advantage is social rather than economic. The unemployed and particularly the young unemployed have significantly higher rates of suicide and attempted suicide than do same age employed people (49). The health of people who are unemployed for long periods is significantly worse than the employed. Some researchers claim that the health problems which are brought on by prolonged unemployment continue to have significant effects for periods of up to fifteen years following prolonged unemployment (50). The marriage breakdown amongst unemployed is greater than for the general population (51). All of these features result in costs to the society in terms of either the cost in health and counselling services; or the cost of Supporting Parents Benefit following the break-up of a marriage. One other cost accruing to the society which is directly related to unemployment is the increased crime rate among the unemployed (52). All these added costs can be avoided if there are sufficient jobs created for all who wish to work (53).

In our community such a high value is placed on socially useful work that any paid employment is generally positively evaluated. People's self-definition tends to be substantially structured around the sort of work they do; they generally have a desire to participate and contribute to the social life of the community (54). The provision of make-work is, therefore, of great benefit to many unemployed people.

Work disincentives and income guarantees: A review of empirical studies

The central point in this discussion about work disincentives is the question "How will people respond to employment once an income guarantee is in place?" Since the late 1960s there have been many attempts to measure empirically people's response to work when some form of income maintenance was ensured (55).

In the early 1960s a number of United States economists confronted with the possibility of the introduction of an income guarantee set out to predict the effect that such a policy would have on productivity. They drew up economistic models of the trade off between work and leisure. Such models assumed that work and leisure are "like goods" and their applicability to practice was dependent on the extent to which leisure is not evaluated as a good of equal value to work (56).

Econometric models which suggest a simple work/leisure trade off are a gross oversimplification of what is an intricate question. The definition of work in terms of paid employment introduces certain presumptions (such as what constitutes production) and biases such econometric
models towards conclusions about lowered productivity. That is, built into such models are inevitable conclusions. The very issues which should be the subject of scrutiny are assumed.

A number of empirical studies have been conducted into work disincentive effects: they have principally been carried out in the United States and Canada. The Brotherhood of St. Laurence's study is the only example of a longitudinal experiment from the Australian literature. These studies provided the research group with an income guarantee; and where there have been control groups, the control did not receive an income guarantee. The results of these studies have not been unequivocal, but the research has failed to established that the presence of an income guarantee itself causes lowered productivity.

Whiteford, a research officer with the Department of Social Security, reviewed a number of United States and Canadian studies which attempted to investigate the effect of guaranteed income schemes on work preparedness. He concludes

"The greatest difficulty in resolving the work incentives debate is that the empirical evidence can be taken to support a number of different conclusions." (57)

He does go on to say

"It seems likely that the introduction of a national guaranteed income would not herald social and economic collapse." (58).

The Brotherhood of St. Laurence income supplement program, whilst it had some design weaknesses, such as the absence of a control group, ran for a period of three years and established quite clearly that work effort did not diminish because of the presence of a guaranteed income (59). There was no evidence that the income guarantee had any negative effect upon work attitudes, hours spent at work, or time spent seeking employment; and it evoked a general belief in the program evaluators and those who worked in the program that the income guarantee provided an element of certainty to the families which allowed them to go out seeking work. It was noted that the number of hours worked by family members declined through this program but this was thought to be a result of the general downturn in the economy (60).

**Work disincentive and welfare dependency**

The intimate connection between low wage rates, limitations on welfare expenditure, and the concern about work disincentive effects has been a major obstacle to improvements in the area of income guarantees. In the United States more clearly than anywhere else, the issue of welfare dependency has been linked to the work incentive question. In Australia during the "dole bludger" campaign, such issues also emerged.

The reason Richard Nixon adopted the Family Assistance Plan as policy and the reason the legislature refused to enact it were both related to the fact that welfare dependency had become a political issue by the time Nixon has assumed office. Unrest in the ghettos was a continuing concern. Whether or not one sees the welfare system as the price of peace, many Congressmen were interpreting the situation in these terms. In the late 1960s and early '70s, they were asking of an income guarantee "Will it preserve order? (more money for more policy might do that at less cost)" [brackets in original] (61).

A number of writers who have investigated the work incentive question have argued that the more important issue is the need to create a willingness on the part of government and industry to provide jobs for low skilled workers and to improve the quality of jobs that are available to the low skilled (62).
The wage subsidy alternative

One of the suggestions which economists came up with to "cope" with the alleged work disincentive effects which they saw associated with both public assistance and income guarantees was the idea of a wage rate subsidy. The main feature of this scheme was that low-paid workers would be given a subsidy by the government in proportion to the number of hours worked; the rate of subsidy would depend on their hourly rate of pay. That is the lower their hourly rate and the greater the number of hours worked, the more they would receive from government. Certainly this form of assistance would provide a positive work incentive. There were, however, a number of undesirable aspects of the wage subsidy scheme. It did not take account of family size, it did not necessarily assist those in greatest financial need, it did nothing for those unable to work and little for those capable of only part-time work. It was also shown that it allowed collusion between employee and employer as to the rate of pay and number of hours worked, it provided no assistance to low paid self-employed people, and had no mechanism for handling the issue of non-wage income.

North American work disincentive experiments sparked considerable comment and some research in Australia. The concluding part of this Chapter will attempt to pull together much of the Australian discussion of this area. This will then provide a background against which to assess, in Chapter VI, the various suggestions which have been made in the 1970s to improve the income maintenance system by introducing income guarantees.

The Henderson and the Priorities Review Staff looked closely at who would be affected by the introduction of an income guarantee and were at pains to establish financial incentives for working so as not to discourage work (63). Pritchard and Sanders looking at the work disincentive debate in somewhat similar terms make the point that "one must consider the labour supply response of all individuals, not just the poor since almost all individuals will experience changes in both their average and marginal tax rates" (64).

In 1975 the Taxation Review Committee headed by Commissioner Asprey, felt that high marginal tax rates might have small effects on the affluent but that

"at the lower income levels the consequences of medium and high marginal tax rates are much more mixed, and very much more dependent upon personal and job characteristics. Hence in general the Committee is doubtful whether, within the kinds of limits that need to be considered seriously, changes in the progressivity of the tax scale would have important effects upon work disincentives." (65)

Even though this committee recognised the inconclusiveness of research into work disincentives the committee rejected the idea of introducing a guaranteed income scheme because of possible work disincentive effects (66).

Manning and Saunders writing some four years later approach this question from a different angle; they acknowledge that as yet no country has set up an income guarantee program and therefore it is not possible to know how many would give up work to live on their social dividend were one introduced; they see in the various United States income experiments evidence that few would do so (67). They go on to argue that the introduction of a guaranteed income scheme along the lines of the Henderson proposal would be compatible with Asprey's simplified and improved tax scheme (68).
Gruen, whilst demonstrating some awareness of the complexity of the debate about work disincentives (such as marginal tax rates, levels of unemployment, some of the inconsistencies of the various economistic predictions and empirical studies) argues that increasing welfare benefit rates can affect both the number claiming benefits and work disincentives (69). Manning reviewing the literature on the effects of benefit rates on youth unemployment argues that Gruen's conclusions cannot be sustained (70).

Gruen bases his arguments on a number of American and Australian studies, many of them econometric models, but he relies to a considerable degree upon the work of Gregory and Patterson (71) and Merrilees (72). Merrilees has elsewhere argued
"the link between unemployment benefits and male teenage labour force participation and unemployment revealed in empirical studies to date is largely spurious."

(73)

The Gregory and Patterson study of unemployment between 1970 and 1979 concludes that the number of people in receipt of Unemployment Benefit was 50 per cent greater than would have been the case had there not been a real increase in the value of the Benefit during that period (74). There are a number of difficulties with Gregory and Patterson's proposition: firstly, there is an assumption that applicants for unemployment are conscious of the increase in real value of the benefit; secondly it takes little account of the increased efforts made by the Department of Social Security to increase awareness of the availability of Unemployment Benefit; thirdly, it ignores the efforts of the Whitlam Labor Government to decrease the stigma of being in receipt of social security.

There are important problems with the line of argument put by Gregory and Patterson which concerns their ideological views. They are operating from a concept of the rational person somehow in charge of his or her destiny. This leads them to blame the unemployed for their unemployment. Implicit in their paper is the acceptance of existing inequalities, even an argument against redistribution. It is only with such an ideological filter they could presume that Australia's interests are served by keeping Unemployment Benefit pegged at its 1970 value so as to decrease the likelihood of people applying. The unemployed cannot solve unemployment created by government and industry as a deliberate policy. Blaming them for their unemployment might decrease the number who apply for Unemployment Benefit but it creates in its wake further problems.

Burbidge (75) makes the point that the presence of reasonable Unemployment Benefit allows people to spend longer searching for the job which is most appropriate for them and that it encourages people to remain looking for work rather than dropping out of the labour market. Merrilees in a paper entitled "The Mass Exodus of Older Males from the Labour Force", records the fact that the labour force participation rate of men over the age of 65 declined by 13 per cent in the period 1964-81 (76). Merrilees attributes 70 per cent of this withdrawal to improved pensions (77). For this view to be plausible, account would need to be taken of the fact that there has been a vast change in Australian industry from 1964 - when labour was in short supply - to the present time when the older are being actively encouraged to drop out of the workforce to make way for younger unemployed people; in my opinion Merrilees' explanation is far too simplistic to account for such a high proportion of the decrease in older male participation rate just in terms of increased benefit. It also fails to acknowledge sufficiently the number of older men still in the workforce.

A number of articles have pointed to the work disincentive effects of high marginal tax rates. The combination of income tax, Social Security withdrawal rates fringe benefit reductions, and their effect upon associated welfare concessions such as rebated Housing Commission rentals, result in effective marginal tax rates in excess of 100 per cent over a wide range of poor people's incomes. Reflecting on the combined marginal tax rates Porter has commented

"In short the whole structure of effective marginal tax rates facing widows, handicapped persons, students, the sick and unemployed is such as to encourage them not to make and effort to find a job." (78)

This opinion was supported by a paper from the Institute of Public Affairs which argued in favour of a negative income tax.
"Since work disincentives arise mainly from the multiplicity of programmes, and the lack of co-ordination between them, the more programmes that are incorporated into the negative income tax the more likely is the disincentive to diminish." (79)

The ideological pronouncement that poor people work primarily in order to survive can be detected in many of the assumptions which underlie this debate. There is a failure to recognise that the attractiveness of working for all people is increased the more interesting the job, the higher social value attached to it, the more pleasurable the social and environmental surroundings.

In conclusion, then, it may be argued that poor people are prepared to take lower paid jobs if those jobs are more pleasant environmentally or more socially valued (80). The concern that the highly-skilled or even semi-skilled workforce is likely to reduce their work effort substantially because of the presence of an income guarantee set at or slightly above the poverty line fails to take account of the multiplicity of reasons people work (81). Nor does it take account of the fact that income guarantees which are introduced in the foreseeable future will be likely to be set at low levels. This is hardly likely to result in a drastic decline in and preparedness of semi-skilled or professional workers whose normal weekly salary would exceed the guarantee many times over. Many comments made about work incentives assume people are aware of all the costs and benefits involved (82). Such beliefs are predicated upon the model of the fully rational person striving after his or her self interest. The "rationality" which is considered applicable by many commentators is very closely tied to economic advantage; it does not take sufficient account of issues such as the work environment, status, and other less tangible features such as the availability of desired leisure activities and the possibility of limiting hours worked without endangering employment.

Should unemployment remain at the prevailing levels, attempting to encourage a work ethic mentality in the ranks of the lowest paid does not make any economic sense - it certainly exacerbates the social and psychological problems of the workless. Concentrating on poor people's alleged lack of preparedness to work mystifies the debate and allows an ideological justification for maintaining existing categorical payments with their associated work and other eligibility tests and differential rates of payment.

If the ideological justifications for distinguishing between categories of the workless were removed governments would find it difficult to sustain many of the arguments against a redefinition of work and pressure would be put on social welfare ministers to justify existing distinctions made between categories of welfare recipients.

Irrespective of the approach which future governments might take towards the Australian income maintenance system, the prime point which this Chapter makes is that experimentation, particularly in the United States, has failed to educe any evidence upon which it is reasonable to conclude that income guarantees set at or about the poverty line have a detrimental effect on the willingness of people to seek or accept available employment.

These issues will be discussed further in Chapter V when the ideological fabric which underpins the structure of the income maintenance system in Australia is investigated. But before then there will be an examination of the family in relation to income support because of the prevailing assumption in Australian society that individuals rely either on paid work or their family to escape poverty.
FOOTNOTES TO CHAPTER III

Titmuss commenting on the British scene pointed out that even in 1949 fringe benefits accounted for 15% of all payroll costs in 1949 and had risen to 24% by 1957, p.170. See also Titmuss, R. Commitment to Welfare, George Allen and Unwin, London, 1976, Chapter XVI.
Richard Titmuss was the first writer to describe the welfare system which exists for the affluent, and to attempt to detail the extent to which such provisions were subsidised by ordinary tax payers. Writers such as Titmuss distinguish between occupational and fiscal welfare and compare them with social benefits. They maintain that fiscal benefits arise out of taxation and tariff policies and occupational benefits are related to working conditions. See Titmuss, R. "Social divisions of welfare", in Titmuss, R. Essays on the Welfare State, Allen and Unwin, London, 1976. However, Rein, M. in "Private provisions of welfare" in Henderson, R. (ed) Welfare Stakes: Strategies for Australian Social Policy, Institute of Applied Economic and Social Research, Melbourne, 1981, discards the divisions between each of these categories seeing all transfers from the state which are meant to protect the individual from market uncertainties in terms of welfare expenditures.


(7) Support for this analysis was provided by Meredith Bergman, Keith Windschuttle and Ken Davidson in Tuesday Despatch, Australian Broadcasting Corporation, 8.4.86.


(9) Jamrozik, A. et al, op cit, p.72


(11) Jamrozik, A. et al, op cit, pp.55-58

(12) Keens, C. and Cass, B. op cit, p.124
(13) Burbidge, A. Income Support Policies for People in the Labour Force, Ph.D. Thesis, Melbourne University, 1981, p.52. It will be shown in Chapter IV that family allowances have been paid in lieu of wage increases.


(16) Many of the workfare positions are make work jobs, jobs which do not need to be done. Schram has investigated one variation on a theme which was initially heavily promoted by Richard Nixon but still is in vogue under Reagan. Schram, S. "The myth of workfare", Catalyst, No.13, 1982


(18) loc cit. Writers such as Gilder, G. Wealth and Poverty, Buchan and Enright, London 1982, pp.60-85 are at pains to argue that welfare payments not only to create work disincentives but lead to family instability. Their approach is criticised by others such as Loney, M. The Politics of Greed: The New Right and the Welfare State, Pluto, London, 1986.


(21) Lewis, O. La Vida, Vintage, New York, 1966


(24) Gardiner-Garden, J. Poverty in Australia, Background paper, Parliamentary Library, Canberra. 9.7.85. pp.4-5


(26) loc cit.

(27) Valentine, C. Culture and Poverty, University of Chicago, Chicago, 1968


(31) Podder, N. The Economic Circumstances of the Poor, Australian Government, Canberra, 1978, p.2


(33) ibid, p.113. See also Ternowetsky, G. "Income maintenance inputs and patterns of change: Some exploratory considerations of the predictions of the situational and cultural models of poverty", Paper No.27 in Festschrift Jean Martin, La Trobe University, Melbourne, 1974. An extensive review of the culture of poverty thesis, the deferred gratification principle and the cycle of deprivation theory is provided by Holman who considers the British and American experience. He comes to similar conclusions as those of Ternowetsky. Holman, R. Poverty: Explanations of Social Deprivation, Martin Robertson, Oxford, 1978, Chapter 3.


(36) Chrissinger, M. op cit., pp.55-56


(38) Charlesworth, S. op cit., pp.150-152

(39) Dixon, D. and Gallagher, T. "A welfare perspective on labour force measurement", Paper presented at the Canberra branch of the Statistical Society of Australia Conference on Unemployment, Australian National University, Canberra, 19485, argued that sole parents, both those on Supporting Parents Benefit and Widow Pensioners, were the most active job seekers of any group of pensioners or beneficiaries other than unemployed beneficiaries.

(40) Baldock, recognising that the Australian workforce is segmented along race, class and gender lines, suggests that the reserve army of labour thesis as it applies to women, requires substantial modification. She notes that in times of economic downturn some women have maintained employment substantially as a result of the gender stereotyping which derives out of the segmentation of labour. Baldock, C. "Public policies and the paid work of women", in Baldock, C. and Cass, B. (eds) op cit., p.25


(41) Paterson, P. et al, op cit., p.16

(42) ibid, p.100

(43) Contrary views are put by McGavin (a), Gregory and Paterson (b), and Merrilees (c). The Bureau of Labour Market Research did find "the employment of young males and (in partfular) young females falls with increases in their wages relative to those of adults. Employment of adult workers is not strongly affected by these wage changes, although adult females are affected more than adult males."(d) "Teenage employment had shown a declining trend for several years prior to the commencement of the recession in 1974"(e), but "The increase in junior/adult wage relativities between 1972 and 1974 was not reflected in a sudden decrease in youth employment."(f) The major cause of the high rate of youth unemployment was the rise in the number of young people as a proportion of the labour market(g).


(d) Paterson, P. et al., op cit., p.xi

(e) ibid, p.3

(f) ibid, p.102

(g) loc cit., The mechanisms by which discouraged workers (old, young and women) are "managed" in Australian society are explained in detail by Stricker, P. and Sheehan, P. Hidden Unemployment: The Australian Experience, Institute of Applied Economic and Social Research, Melbourne, 1981. A most detailed study of young long-term unemployed Australians is being carried out by the Department of Employment and Industrial Relations. See Muir, J. et al., the First Wave of the Australian Longitudinal Survey, Bureau of Labour Market Research, Canberra, 1986, Monograph No 12.

(44) Cutt, J. and Dixon, J. Income Support Options for Australia: An Approach to Assessment, Australian National University and the College of Advanced Education, Canberra, p.3.

(45) Griffiths, D. et al, Claimants or Clients, Brotherhood of St Lawrence, Melbourne, July 1975.


(47) Aborigines in the Northern Territory call any social welfare payments other than pensions, although these are sometimes included, "sit down" money.

(48) For a discussion of this point, see Turnbull, S. Economic Development of Aboriginal Communities in the Northern Territory, Australian Government, Canberra, 1980.


(53) Dixon, D. Unemployment: The Economic and Social Costs, Brotherhood of St Laurence, Melbourne, 1988


(55) One thing which is clear from any review of the literature on the topic of work disincentive effects which may occur when welfare benefits are present or increased, is the difficulty in
separating the ideological constructions from the empirical studies. The empirical studies, when looked at critically, can be seen to contain, or to have been influenced by ideological positions which are derived from the breadth of the political spectrum. The first major research project in this area, the New Jersey experiment was instituted to attempt to find an answer to the predominantly conservative criticism of increased dependency 'caused' by welfare programs such as Aid for Dependent Children. The Brotherhood of St Laurence income supplement project was initiated as part of an attempt by that organisation to encourage the Government to extend benefits, make the Social Security system less complex and move it towards a system which covered all poor people rather than to continue to rely on its categorical approach. Benn, C. Attacking Poverty through Participation, PIT, Melbourne, 1981.

Conservative concern with guaranteed minimum income schemes was that they removed the work compulsion aspects of welfare and would lead to a loss of discipline in the workforce. The question has been central to a number of American income maintenance experiments. See Rein, M. "Methodology for the study of the interplay between social science and social policy", International Social Science Journal, Vol 32, No 2, 1980, pp.366-368. Janowitz, M. in Social Control of the Welfare State, op cit., pp.118-124, argues that before a negative tax system could be introduced for more effective forms of social control need to be in place. Katz, A. "Income maintenance experiments: Progress towards a new American national policy", Social and Economic Administration, Vol 7, No 2, May 1973 argues that the work disincentive suggestion has become "the keystone of every anti-welfare question", p.133.

The ideological position adopted by commentators reviewing the various empirical studies, is often reflected in the experiment. The conclusions drawn by the Poverty Inquiry about the work disincentive effect of introducing a guaranteed minimum income (a) were vastly different from the Asprey Committee on Taxation, (b) and even further removed from some right wing groups. One such example is provided by Bob Howard, writing in Free Enterprise, the journal of the 'Workers Party, who said that if "the guaranteed minimum income level is set at $3000 a year, most people earning less than that will stop work... those only marginally above the breakeven point would also suffer considerable work disincentive". (c)

(a) Henderson, R. First Main Report: Poverty in Australia, op cit, Chapter 6.
(c) Howard, B. "The guaranteed minimum income", Free Enterprise, September-October 1975, p.6

Economic rationality is not the only force which motivates people to go to work. Such an assumption is the "cornerstone of the sociology of work". Whiteford, P. op cit., Social Security Journal, June 1981, p.31

Economic rationality is not the only force which motivates people to go to work. Such an assumption is the "cornerstone of the sociology of work". Whiteford, P. op cit., Social Security Journal, June 1981, p.31. Although the following examples could be dismissed as anecdotal, they are examples of real people's strong desire to engage in productive labour. "A handicapped woman who works 24 hours a day, seven days a week, for 10¢ an hour, is believed to be the worst paid worker in Britain. She takes calls at home for an emergency plumbing service" Daily News, Perth, 4.5.83, p.5. Another woman, a mother of five children was paid "12¢ an hour typing envelopes five hours every day", loc cit.


(64) Pritchard, H. and Saunders, P. "Poverty and income maintenance policy in Australia: A review article", The Economic Record, April 1978, p.25

(65) Asprey, K. op cit., pp.30-31

(66) ibid, p.180


(68) ibid, p.57


(72) Merrilees, W. "The mass exodus of older males from the labour force", Australian Bulletin of Labour, March 1982


(74) Gregory, R. and Paterson, P. op cit.

(75) Burbidge, A. op cit., pp.74-81


(77) Merrilees, W. "The mass exodus of older males from the labour force", op cit. For a more balanced discussion of the decrease in employment amongst older people, see Butterworth, R. and Newton, J. "The age pension and the retirement age", Social Security Journal, June 1985. Note particularly, Table 2, p.49 which reveals a decrease in employment at a number of age levels. This should alert a researcher to the presence of a number of factors having some effect upon employment and retirement decisions.


(79) No author listed, "Should we abolish the Department of Social Security?" IPA Review, Vol 34, No 4, October/December 1980, p.78

(80) See also Ternowetsky, G. "Income maintenance imputs and patterns of change: some exploratory considerations of the predictions of the situational and cultural models of poverty", Paper No. 27 in Festschrift Jean Martin, La Trobe Univeristy, Melbourne, 1974. An extensive review of the culture of poverty thesis, the deferred gratification principle and the cycle of deprivation theory is provided by Holman who considers the British and American experience. He comes to similar conclusions as those of

(81) Anthony, P. The Ideology of Work, Tavistock, London, 1977. Particularly chapter 6 and 13. This debate substantially ignores the fact that in all western societies there are many more workers seeking work than there are jobs available.