

*You win by beating, and hopefully crippling, your competition*

*The only prize for running second is silver at five (real) bucks an ounce as against 260 for gold*

*.....the only place to be is number one. And you don't stay number one, by being kind to number two. Number three, perhaps, but that's a different story*

*So the best time to put your boot into the competition, is ALL the time*

Terry McCrann, Economist, explaining the niceties of competition in an open market. The Weekend Australian, 18-19 November 2000, p.34.

## **A Divided Society?**

During a recent debate in Federal Parliament on legislation providing federal assistance to public and private schools, the Prime Minister accused the leader of the opposition of introducing "the politics of class and envy into the debate". This followed claims by Labor that the legislation favours the rich elite private schools at the expense of public schools.

This was a strange accusation to make. One can only assume that the Prime Minister believes that within Australia today there is a class system being defined, despite claims to the contrary, and within the lower classes in this system there are feelings of envy. This is understandable. For several years now there has been undisputed evidence of a widening gap between the rich and the poor in this nation, and it can be expected that there will be feelings of envy amongst the poor.

What must also be understood is the degree to which this widening gap is being fostered directly by government actions. When legislation proposed by government is seen to favour the rich and the well-off at the expense of the poor and the not-so-well-off then the government will be seen to be promoting a class system within the nation, and can be charged with introducing the politics of class into the debate. Whether there is also envy will depend upon the degree to which the proposed legislation is seen to be favouring one group at the expense of another. Envy may arise through differences in wealth, health, education, etc. but it will be greatly strengthened when these differences are fostered and nurtured by political action. People may be envious of others in the community for what they have, and this can have a positive effect by acting as an incentive to do better. However, if people are envious of others because they are seen to be favoured by legislation, this will be a far stronger emotion with negative effects.

The proposal for school funding is one example. Other examples in recent times are:

**Health** The government subsidy for private health fund fees is applied free of means test. This subsidy not only goes to those who are able to afford to join a medical benefits fund, but it is free of means test - it goes to all members irrespective of wealth or income. The subsidy goes to all private fund members, including those who are amongst the wealthiest in the nation. Those who cannot afford private health cover are dependent upon government support for the public health system.

**Superannuation** The existing superannuation scheme is related to occupation - it does nothing for the unemployed, and it does very little for the underemployed. On the other hand it does plenty for the rich and the well-off. To those who are struggling it is depicted as important to ensure a reasonable income on retirement, but it will not be sufficient to prevent dependency on some state provided retirement benefit. To those who have plenty it is seen as a tax concessional investment. e.g. the retiring managing director of Brambles Industries to receive a \$9 million golden handshake, including a \$2 million payment into his superannuation.

**Income support** The unemployed receive an allowance well below the basic age pension rate. The current age pension rate is at least 25 per cent of average weekly earnings (AWE) The current job search allowance is roughly 22 per cent. The means test is also much more liberal for the age pension rate, with a pension reduction of 40 per

cent for all income over the allowable limit, whereas for the job search allowance the pension reduction for income over the allowable limit starts at 50 per cent, then changes to 100 per cent, and finally to 70 per cent.

These are three examples of government initiated class divisions in our society which are apparent and recognisable. There are others, including some which are not so apparent such as the introduction of the GST which saw the replacement of part of progressive taxation receipts with regressive taxation receipts. Little wonder that the debate on legislation which introduces or reinforces class distinction must carry with it the politics of class and envy, and this applies equally to those who support it and those who contest it.

### **Welfare dependency**

Noel Pearson, Aboriginal spokesman and activist, has long been a strong critic of welfare dependency, strong enough to now switch support for welfare policy from the Labor opposition to the Coalition government. What is it about their policy which has attracted his support?

After all welfare dependency is not some new disease for which government has found a new cure. Welfare dependency predates the industrial revolution, as does the treatment being promoted as government policy.

Welfare dependency is an inevitable result of a shortage of employment opportunities in conjunction with means tested income support. There are simply not enough jobs offering acceptable pay and conditions for those who wish to work. Even with the best of intentions there are people today who cannot find employment, sometimes because of lack of training or aptitude or because of location, but more often simply because there are too many applicants for the available work.

One simple solution is to create more jobs - i.e. job creation - and there was a time when Keynesian economists supported public expenditure on capital projects to stimulate the job creation process. Today this is economically unacceptable. If job creation is to be introduced it must be under some other guise, and to appease the economic rationalists who fear that job creation will expand the labour market with inflationary consequences, the jobs that are created must not be real jobs available for the labour force as a whole.

The government has introduced a job creation program based on two principles which are seen to be economically acceptable.

The first principle is to reduce the element of choice in what determines whether a job is acceptable or not by a "work or starve" approach. Failure to accept work that is offered can lead to loss of income support. This increases the range of jobs available as employers find they can offer jobs with less security and pay in the knowledge there is a penalty for non-acceptance. This also increases the number of "working poor".

The second principle is to require people to work in return for their income support, and jobs are created specifically for this purpose. They are not "real jobs" available to the labour force. There has been some degree of community acceptance for the introduction of compulsion into this area through the "work for the dole" program, or in the case of Aboriginal communities the "Community Development Employment Projects".

To seek even wider community acceptance, the government has introduced concepts such as mutual obligation and social participation to provide moral or ethical justification for what is virtually conscription of labour, and to help counter what is being promoted as the evil of welfare dependency. Proponents of these concepts are going to extraordinary lengths to demonstrate to economists and the public at large that creating jobs the unemployed must accept to receive income support is not a program of job creation. Job creation is not job creation. In doing so they are focussing attention on the victims of unemployment, not on the causes. Another case of treating the symptoms, not the disease.

The question is whether Noel Pearson and those who echo his views support the whole of the government program, or just the parts that they agree with.

### **POVERTY and OPPORTUNITY**

In a recent article published in *The Australian*, 22 November 2000, p.13, the Minister for Employment Services, Tony Abbott, stated:

*Some indigenous communities aside, the welfare state has not failed. It has succeeded to such an extent that absolute poverty and total absence of opportunity are almost unknown in societies such as ours.*

There are three significant points raised in this statement. The first, contained in the opening sentence, is the acknowledgement that after seven years in office the present government has failed to remedy the situation in regard to indigenous communities. Over time all governments have failed. The welfare state has not reached out to these communities. This is a situation of great national, and international importance, and warrants more detailed consideration. However, it is the following sentence, and the assertion that "absolute poverty and total absence of opportunity are almost unknown in societies such as ours", that is the focus of attention in this newsletter.

Where are these societies such as ours? Where are these societies within which absolute poverty and a total absence of opportunity are unknown? Are they to be found in The US, Canada, New Zealand and the UK where they are tackling unemployment at the expense of poverty, or are they to be found in Europe where the emphasis has been on tackling poverty at the expense of unemployment? <sup>1</sup>

Perhaps concentration on Australian society rather than on other societies will enable a more meaningful consideration of the true position in this country.

### **Absolute poverty**

What exactly does absolute poverty mean, and how can it be measured? Is absolute poverty to be defined by reference to other nations as the lowest level of poverty in the world? If so, then the poorest in Australia are to be compared with the poorest in the world, and the claim being made is that the poorest in Australia are at least better off than the poorest in any other country. (This is in much the same fashion as the claim made recently by the Attorney-General in respect of mandatory sentencing that the people convicted in Australia are much better off than people convicted of similar crimes in some other societies?)

Alternatively, absolute poverty may be defined in some objective and measurable term such as "having insufficient means to provide the minimum food, clothing and shelter necessary to sustain life". Defined in this way, evidence of absolute poverty in association with evidence of absolute wealth can be seen as an absolute failure of government.

Following years of economic growth and prosperity there is evidence of absolute wealth in Australia today. There is also evidence that some people in Australia today do not have sufficient income to sustain life.

The safety net for the unemployed, for example, is pitched at a lower level than for others in the community, and provides only conditional protection. Not only is the basic level of income support below that established for pensioners such as age pensioners, but receipt of the income support is conditional upon meeting specific obligations. Failure to meet these obligations will result in the income support being reduced or withdrawn leaving people without sufficient means to sustain life.

Any assessment or definition of "absolute poverty" must also lead to the question of whether the state has the economic and financial ability to ensure that no citizens are in absolute poverty. There is no question that the Australian government has the ability to meet this objective. If there is evidence of absolute poverty then it must be directly as a result of government neglect or intention, i.e. a lack of willpower, not a lack of wealth.

This brings into consideration the concept of "the right to live" as stated by Erich Fromm:

*The point I want to make is to uphold the principle that a person has an inalienable right to live, a right to which no conditions are attached and which implies the right to receive the basic commodities necessary for life, the right to education and medical care; he has a right to be treated at least as well as the owner of a dog or a cat treats his pet, which does not have to "prove" anything in order to be fed. <sup>2</sup>*

This is a concept which has not been accepted by successive governments of and within Australia. They may have legislated to ensure animals are properly housed and fed, but they have also legislated to permit people to be deprived of sufficient income to be properly housed and fed. Within the existing welfare state today there are people in absolute poverty, however it may be defined, and there will continue to be people in absolute poverty while we have conditional income support.

"Absolute poverty" as a measure of social wellbeing is not appropriate in a nation with the economic growth and prosperity experienced by Australia in recent years. Absolute poverty is a term with subjective and political connotations rather than having objective and measurable conditions. One could, for example, declare that, within a nation embracing slavery there is no absolute poverty provided the care of slaves meets recognised standards. Slaves have to work, but they are ensured of being adequately housed and fed. (A nation with conscription of labour is only one step - i.e. ownership of people - away from slavery.)

As an indicator of how well all citizens are able to enjoy and share in economic growth and prosperity, "relative poverty" is a more appropriate measurement. Measurement or assessment of relative poverty is not based on what is required to exist, or to sustain life, but on what is required to maintain an acceptable standard of living. Assessments of poverty levels should not only be indexed to take into account movements in the cost of living, but should also be upgraded to take into account higher standards of living resulting from economic growth and new technologies. The assessment of poverty levels should also reflect the degree to which all citizens are able to share in economic prosperity. In this regard, it is the gap between the rich and the poor rather than the actual levels of richness and poorness which is of greater importance.

### **Total absence of opportunity**

Again, like "absolute poverty", total absence of opportunity is a term with political connotations rather than indications of social wellbeing. In fact it can be claimed that the only opportunities for which there is equality and for which total absence is almost unknown are opportunities which have very little social value.

In the field of employment, for example, it cannot be claimed that all who are able and willing to work have the opportunity to work. On the contrary, it is widely acknowledged, and government forecasts continually confirm, that there are simply not enough jobs available for all job seekers.

Yes, there is the opportunity for all who are able and wish to work to apply for employment, but this is as far as "opportunity" can be extended. There is no doubt that within our society today the total absence of the opportunity to apply for work is almost unknown, but applying for work alone is of very little social value. It is employment, not applying for employment, which enables people to participate in society.

In the field of education the government is spending many millions of dollars each year to help support fee-paying private schools - an allocation which does nothing to help the education of vast numbers in the community. There is no equal opportunity for children to attend private schools. Again there may be equal opportunity to apply, but for many acceptance is far beyond their means.

In the field of health care the government is spending many millions of dollars to subsidise premiums for private health cover - expenditure which does help the medical care of a number of people within the community. Again there is no equal opportunity for people to enjoy private health cover. Again there may be equal opportunity to apply, but for many acceptance is far beyond their means.

In the field of superannuation, the government is providing taxation concessions for investments in superannuation funds - taxation concessions which do very little, if anything at all, for the unemployed and the underemployed. There is no equal opportunity for people to enjoy the taxation concessions provided by government. People have two avenues for participation in occupational superannuation. For those in employment contributions by employees and employers can be invested directly in approved superannuation funds - for the unemployed there is no such opportunity. Individuals may also make direct contributions, or have them made on their behalf - for those with limited assets there is no such opportunity.

Poverty and absence of opportunity are well known within our community.

References:

1. See first paragraph of following extract from a paper by Phillip Van Parijs
2. Erich Fromm, *The Revolution of Hope*, Bantam, 1968. p131

### **Jobs and Growth**

(Extract from a paper prepared by Phillip Van Parijs for the Boston Review. One of a number of papers on BI published on their website: <<http://bostonreview.mit.edu/>> and to be published in printed form in 2001)

A second way to make the case for UBI [Universal Basic Income] is more policy-oriented. A UBI might be seen as a way to solve the apparent dilemma between a European-style combination of limited poverty and high unemployment and an American-style combination of low unemployment and widespread poverty. The argument can be spelled out, very schematically, as follows.

For over two decades, most West European countries have been experiencing massive unemployment. Even at the peak of the jobs cycle, millions of Europeans are vainly seeking work. How can this problem be tackled? For a while, the received wisdom was to deal with massive unemployment by speeding up the rate of growth. But considering the speed with which technological progress was eliminating jobs, it became apparent that a fantastic rate of growth would be necessary even to keep employment stable, let alone to reduce the number of unemployed. For environmental and other reasons, such a rate of growth would not be desirable. An alternative strategy was to consider a substantial reduction in workers' earnings. By reducing the relative cost of labor, technology could be redirected in such a way that fewer jobs were sacrificed. A more modest and therefore sustainable growth rate might then be able to stabilize and gradually reduce present levels of unemployment. But this could only be achieved at the cost of imposing an unacceptable standard of living on a large part of the population, all the more so because a reduction in wages would require a parallel reduction in unemployment benefits and other replacement incomes, so as to preserve work incentives.

If we reject both accelerated growth and reduced earnings, must we also give up on full employment? Yes, if by full employment we mean a situation in which virtually everyone who wants a full-time job can obtain one that is both affordable for the employer without any subsidy and affordable for the worker without any additional benefit. But perhaps not, if we are willing to redefine full employment by either shortening the working week, paying subsidies to employers, or paying subsidies to employees.

A first option, particularly fashionable in France at the moment, consists in a social redefinition of "full time" that is, a reduction in maximum working time, typically in the form of a reduction in the standard length of the working week. The underlying idea is to ration jobs: because there are not enough jobs for everyone who would like one, let us not allow a subset to appropriate them all.

On closer scrutiny, however, this strategy is less helpful than it might seem. If the aim is to reduce unemployment, the reduction in the work week must be dramatic enough to more than offset the rate of productivity growth. If this dramatic reduction is matched by a proportional fall in earnings, the lowest wages will then fall unacceptably below the social minimum. If, instead, total earnings are maintained at the same level, if only for the less well paid, labor costs will rise. The effect on unemployment will then be reduced, if not reversed, as the pressure to eliminate the less skilled jobs through mechanization is stepped up. In other words, a dramatic reduction in working time looks bound to be detrimental to the least qualified jobseither because it kills the supply (they pay less than replacement incomes) or because it kills the demand (they cost firms a lot more per hour than they used to).

It does not follow that the reduction of the standard working week can play no role in a strategy for reducing unemployment without increasing poverty. But to avoid the dilemma thus sketched, it needs to be coupled with explicit or implicit subsidies to low-paid jobs. For example, a reduction of the standard working week did play a role in the so-called "Dutch miracle" the fact that, in the last decade or so, jobs expanded much faster in the Netherlands than elsewhere in Europe. But this was mainly as a result of the standard working week falling below firms' usual operating time and thereby triggering a restructuring of work organization that involved far more part-time jobs. But these jobs could not have developed without the large implicit subsidies they enjoy, in the Netherlands, by virtue of a universal basic pension, universal child benefits, and a universal health care system.

Any strategy for reducing unemployment without increasing poverty depends, then, on some variety of the active welfare state that is, a welfare state that does not subsidize passivity (the unemployed, the retired, the disabled, etc.) but systematically and permanently (if modestly) subsidizes productive activities. Such subsidies can take many different forms. At one extreme, they can take the form of general subsidies to employers at a level that is gradually reduced as the hourly wage rate increases. Edmund Phelps has advocated a scheme of this sort, restricted to full-time workers, for the United States. In Europe, this approach usually takes the form of proposals to abolish employers' social security contributions on the lower earnings while maintaining the workers' entitlements to the

same level of benefits.

At the other extreme we find the UBI, which can also be understood as a subsidy, but one paid to the employee (or potential employee), thereby giving her the option of accepting a job with a lower hourly wage or with shorter hours than she otherwise could. In between, there are a large number of other schemes, such as the US Earned Income Tax Credit and various benefit programs restricted to people actually working or actively looking for full-time work.

A general employment subsidy and a UBI are very similar in terms of the underlying economic analysis and, in part, in what they aim to achieve. For example, both address head-on the dilemma mentioned in connection with reductions in work time: they make it possible for the least skilled to be employed at a lower cost to their employer, without thereby impoverishing workers.

The two approaches are, however, fundamentally different in one respect. With employer subsidies, the pressure to take up employment is kept intact, possibly even increased; with a UBI, that pressure is reduced. This is not because permanent idleness becomes an attractive option: even a large UBI cannot be expected to secure a comfortable standard of living on its own. Instead, a UBI makes it easier to take a break between two jobs, reduce working time, make room for more training, take up self-employment, or to join a cooperative. And with a UBI, workers will only take a job if they find it suitably attractive, while employer subsidies make unattractive, low-productivity jobs more economically viable. If the motive in combating unemployment is not some sort of work fetishism obsession with keeping everyone busy but rather a concern to give every person the possibility of taking up gainful employment in which she can find recognition and accomplishment, then the UBI is to be preferred.

### **Following Paper**

The paper to be sent immediately following this newsletter is a paper prepared by John Tomlinson, Queensland University of Technology, and presented at the 7th Annual Conference on Unemployment, University of Western Sydney, 30 Nov - 1 Dec 2000.

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