POVERTY AS A COMPONENT OF OUR ECONOMIC SYSTEM

Despite sustained and strong economic growth in Australia during most of the past 20 years, and despite increasing public expenditures on income security programs, poverty has remained surprisingly persistent. While little or no hard data was available in Australia until 1966 when the Institute of Applied Economic and Social Research conducted its first poverty survey, available evidence suggests that, if anything, the extent of poverty in Australia has increased since the early 1960s. This increase in the incidence of poverty in Australia has inevitably given rise to discussion about the reasons for the failure of rising public expenditures to eliminate poverty, and even to debate about the 'real' extent of poverty.

During our time together today I propose arguing that poverty could be eliminated in Australia; but only if it is recognised as inextricably linked with our economic system and anti-poverty programs are set firmly within a context of an overall attempt to reduce inequality.

Concepts of Poverty

The Brotherhood of St Laurence has argued for many years that poverty can be defined objectively only in terms of a concept of relative deprivation.

'Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged and approved in the society to which they belong.'

In these terms the success of policies designed to alleviate poverty must ultimately be measured by reference to the extent to which they have been able to achieve a reduction in inequality.

It is probably important to emphasise at this point that relative poverty is not the same as inequality. Poverty is the lower end of the inequality that prevails at any point in time. Acceptance of a relative definition of poverty does not mean that poverty will always exist, for it is quite possible for governments to ensure that no one has an income below whatever the relative poverty line happens to be at any one time, (say, 50 per cent of the median income). Clearly, too, the abolition of relative poverty does not mean abolition
of inequality, though it does mean a reduction of it. Indeed, governments of many western industrial countries have proclaimed their intention of abolishing relative poverty, but certainly not inequality. Yet, in a major review of the American War on Poverty, Aaron suggests that the war's history of policy failures is a chronicle of how the inability or unwillingness to acknowledge that poverty could only be eliminated if inequality was reduced resulted in confused, poorly conceived programs often based on ambiguous or confused objectives.

This relative view of poverty, inextricably linked to inequality, is clearly at odds with the previous Federal Government's publicly expressed views. Poverty was viewed in essentially absolutist terms with most of the debate focussing on income poverty. Programs designed to reduce poverty attempted to target resources on those 'in greatest need' by relying entirely on a cash income definition of need. Almost certainly the narrowness of this criteria of need resulted in serious injustice. For example, there are groups in the population with considerable income in kind, such as farmers. There are people with small cash income, but considerable assets which lift their standards of living. There are people with identical wages or salaries who differ greatly in the extent to which fringe benefits from employers add substantially to their living standards. There are people with identical cash incomes who differ greatly in the support they obtain from free public services because, for example, they live in different areas.

Living standards depend on the total contribution of not one but several systems distributing resources to individuals, family, work groups and communities. To concentrate on cash incomes is to ignore the subtle ways developed in both modern and traditional societies for conferring and redistributing benefits. Moreover, to concentrate on income as the sole criterion of poverty also implies that relatively simple adjustments as might be made in a simple scheme for negative income tax, will relieve it. Rather, poverty is the creation of the complex interrelationships of a number of resource distribution systems.

'The practical implication is that the abolition of poverty may require comprehensive structural change in not one but several institutional systems. The problem is to establish firstly, the part that the different types of resources play
in determining the overall standards of living of different strata in the population, and secondly, which of the systems underlying the distribution of that resource can be manipulated most efficiently to reduce poverty.' (Townsend)

One of the advantages of recognising the interrelationships of resource distribution systems is that it allows total and partial poverty to be distinguished. If resources are distributed by different institutional systems then it follows that, while some people may lack a minimal share of any of those resources, there will be others who lack a minimal share of one or two types of resources, but have a substantial share of others. Alternatively, the level of total resources may be sufficient to avoid deprivation in one or more, but not all major spheres of life.

Another advantage of combining the ranking of resources in different dimensions is that it allows us to trace more clearly the differences between temporary and long-term poverty. The distribution of resources changes over time. People change jobs; become unemployed or sick; they obtain new dependants. These complex patterns of poverty have been clearly documented in the University of Michigan survey of 5,000 families over a number of years.

The first five years of the survey has shown that at the end of five years, fewer than half of the people with incomes below the poverty line in the first year remained in poverty. Roughly one-third of those who were poor one year were not poor the next and were not poor the year before. The number of poor was stable because large flows in and out just about balanced. Second, of those who left poverty, somewhere between one-half and four-fifths stayed out of poverty for at least a year. Third, most people whose incomes rose above the poverty line did not move out of poverty because of a major change in their family situation, such as marriage or the maturing of children. Fourth, of those who left poverty, roughly half ended up after five years with incomes at least 50 per cent above the poverty line. A significant fraction of those poor when the study began had incomes over the six years 1967-72 that averaged above the poverty lines, but nearly twice as many were poor at least one of those years. Only about 3 per cent of the population were poor in all six years, but more than one-fifth were poor in at least one of those years.
### Table 1

**RESOURCE DISTRIBUTION SYSTEMS AFFECTING STYLE OF LIVING**

<table>
<thead>
<tr>
<th>Type of resource</th>
<th>Main systems from which derived</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash income:</td>
<td></td>
</tr>
<tr>
<td>(a) Earned</td>
<td>Wage and salary systems of private industry and the State</td>
</tr>
<tr>
<td>(b) Unearned</td>
<td>Self-employment income system</td>
</tr>
<tr>
<td>(c) Social Security</td>
<td>Fiscal system</td>
</tr>
<tr>
<td>2. Capital assets:</td>
<td></td>
</tr>
<tr>
<td>(a) House/flat occupied by family and possessions</td>
<td>Building societies and insurance companies</td>
</tr>
<tr>
<td>(b) Assets (other than occupied house)</td>
<td>Employer subsidy</td>
</tr>
<tr>
<td>3. Value of employment benefits:</td>
<td></td>
</tr>
<tr>
<td>(a) Employers' fringe benefits: subsidies and value of occupational insurance</td>
<td>Industrial welfare system</td>
</tr>
<tr>
<td>(b) Occupational facilities</td>
<td>Industrial planning and management Safety inspectorate</td>
</tr>
<tr>
<td>4. Value of public social services: Chiefly other than cash, including government subsidies and services, e.g. health and education, but excluding social security</td>
<td>Public education system</td>
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<tr>
<td>5. Private income in kind:</td>
<td></td>
</tr>
<tr>
<td>(a) Home production</td>
<td>Family</td>
</tr>
<tr>
<td>(b) Gifts</td>
<td>Personal leisure</td>
</tr>
<tr>
<td>(c) Value of personal supporting services</td>
<td>Self-employment</td>
</tr>
</tbody>
</table>

These statistics admit two complementary interpretations. The first is that early views of poverty are distorted; a sizable fraction of the poor do not seem to be trapped in poverty, contrary to the popular 'culture of poverty' theories. Many escaped from poverty, even if not very far. The group that suffers sustained, long-term poverty is smaller than is commonly supposed. The second interpretation is that the pool of people whose incomes periodically fall below the poverty line is far larger than poverty statistics suggest. Households suffer substantial income variability even after one takes account of their measured characteristics such as, age, education, race and so on, and the average incomes they earn over several years. Random events - the business cycle, loss of job, family problems - play an important role in the dynamics by which families sink into poverty or rise from it. The data make clear that the problem of income poverty is a continuum of problems, ranging from those of households who cannot ever earn enough to lift themselves out of poverty, through other families who sometimes earn more but never much more than poverty line levels, to a fraction that experiences poverty for a relatively brief time and then emerges from it. In short, the simple snapshot of poverty that many people adopted a decade ago has become a complex moving picture. As much as anything these findings should challenge our tendency to divide the population into the poor and non-poor and to develop policies as if the problems of being poor are switched on suddenly when incomes fall below an arbitrary poverty line and switched off when income rises above it. The complexity of the problem is compounded when we start to measure poverty in relation to resources other than income.

In summary, the argument is that a wider concept of 'resources' should replace 'income' in the study of inequality and poverty, and that 'style of living' should replace 'consumption' in determining what levels in the ranking of resources should be regarded as constituting deprivation.

Poverty then is the lack of the resources necessary to permit participation in the activities and customs commonly approved by society. Different kinds of resources, and not just earnings or even cash incomes, have to be examined. The scope, mechanism and principles of distribution of each system controlling the distribution and re-distribution of resources have to be studied. The Table distributed today represents a simplified form of the resource systems...
though, clearly, there are a large number of sub-systems which would have to be distinguished in a full analysis. Poverty is in part the outcome of these systems operating upon the population. Some, such as the wage and social security systems, affect large proportions of the population and account, in aggregate, for a large share of the total resources which are distributed. Others play a relatively minor role.

The model provides a framework in which we can come to terms with the observation that, despite substantial increases in the resources distributed via social security and other public social services, overall inequality in the distribution of resources, and perhaps poverty as well, is growing. This appears to arise in part from the disproportionate growth to prominence of industrial fringe benefits, aided and abetted by the fiscal system and in part to the disproportionate growth of the dependent sector of the population which is excluded from the labour market. On this analysis the distribution of resources between resource systems can be as important as the distribution within the single system.

Policy Perspectives

When we turn to consider issues affecting what we can do to eliminate poverty we are immediately confronted with a number of seemingly irresolvable disagreements. One of the most significant relates to who should be allocated goods and/or services under programs designed to reduce poverty.

English poverty researcher, Peter Townsend, has suggested a model built around three differing modes of perceiving and reacting to poverty. One has been to provide 'conditional welfare for the few', characterised by the principle of selectivity in the giver's approach to the receivers. A second has been to offer 'minimum rights for the many', that is, to apply the principle of 'universalism'. A third has been to prescribe 'distributional justice for all', allocating resources according to need. Each of these models involves different conceptions of what poverty and need are, and what should be done. Moreover, each of the three approaches to social policy derives from different value judgements about the proper way society should be organised.
During most of its history, Australian measures to deal with poverty have been rooted quite clearly in the principle of 'conditional welfare for the few'. Policy has been linked with laissez-faire economics and the virtues of a hierarchical, market society. Far from threatening the economic and social order, government policy has upheld and reflected it and thereby helped create poverty. Virtue has been carefully linked to work, and since level of income is also tied to the amount and importance of work done, those who are not at work not only have less income but have to show eagerness to work even to secure minimum rights. Great emphasis has been placed on relief through charity and voluntary effort, with public expenditure held down by the barrier of means tests.

The second principle, minimum rights for the many, has only been treated seriously as a basis for social policy during relatively short periods in Australia. Under this principle poverty is assumed to be a significant but not an unmanageable problem explained predominantly by the misfortune of certain minorities who fell out of work, could not work or were not expected to work, or did not have or could not afford certain basic 'necessities' of life. The State had to intervene in the private sector to regulate, supplement and exhort, but not to impose. The economic and social order needed to be properly and decently underpinned rather than radically recast. Characteristics of such policy are redistributive taxation and universal benefits in cash and in kind which are usually limited in range and modest in value. The levels of pensions and benefits are determined, as much as anything, by the threat they pose to the lower end of the wage system. Particularly when measures to assist the unemployed are being debated, concern is expressed that someone receiving unemployment benefits should not be able to supplement his benefit to a level above the minimum wage.

A serious problem with this second principle is that those who seek to apply it tend to assume that the stratum of the population who are in poverty is fairly stable and fairly small, when, as has already been documented, there is constant movement into and out of poverty and, at any one stage, a very large proportion of the population who only just escape its clutches.
In important ways, there is an inbuilt tension, or even contradiction, in the application of the principle of a national minimum to a market economy. As Townsend has observed:

'A minimum is hard to establish alongside or underneath a wage-earning and property-owning hierarchy - except at a very low level. It becomes hard to maintain when the number of dependants at each end of the wage scale increases and, as a result of the economy meeting fluctuating fortunes, more people of so-called active age are made redundant or unemployed.'

The third principle, distributional justice for all, has not yet been clearly articulated or tried in Australia, though it might be said to have been invoked in certain areas of policy such as health, education and urban development during the first half of the 1970s. Townsend himself accepts that the principle is more an aim to be striven towards, and its application spelt out after further public discussion, than embodied concretely in historical events. Characteristic of a policy worked out according to such a principle would be economic, political and social re-organisation and the equal distribution and wider diffusion of all kinds of power and material resources.

Quite clearly, the definition and explanation for poverty developed earlier in this paper lend support to a combination of the second and third perspectives as appropriate for policy. Just as clearly, present Australian poverty policy is rooted firmly in the notion of 'conditional welfare for the few'.

During the 1950s and most of the 1960s, Australian social policy was clearly developed from the perspective of conditional welfare, with the Federal Government unwilling to expand its social welfare role. The late 1960s saw a trend away from means-testing which marked an important turning point in Australian social policy. The prosperity of the 1960s produced a growing dissatisfaction with the means test. The test was finally liberalised in 1969, adding nearly another 10 per cent to the proportion of the aged obtaining a pension.

A further important example of the development of a universal approach to social welfare was the concern over the health care
system: however, in important respects, the health care needs of the poor was incidental to the need to rationalise an untidy, inefficient health care system.

By 1972, the Whitlam Labor Government was elected with firm commitments to universal programs. Election promises included abolition of the means test on aged pensions, a national compensation and rehabilitation system and a comprehensive national health scheme. Almost immediately, the Labor Party's plans to make social welfare more comprehensive, and more adequate, ran into obstacles. In part, this reflected internal contradictions in particular policies, but also illustrated some of the difficulties of policy design and implementation.

Partly as a result of its experience in Government, the Labor Party has retreated from policies favouring universal programs and appears almost as committed as the Liberal Party to holding down public expenditure and focussing 'limited resources on those in greatest need'. To a disturbing degree, there appears to be a consensus among the political parties that little or nothing can be done to reduce poverty, at least in the short term. The welfare policies of both parties appear based on a residual rather than an institutional view of welfare, with a confident expectation that minimal resources can be efficiently targeted on the poor.

Universal versus Selective Programs

Against this background it seems important to pause in the rush to more means-tested programs and to examine some of the values which underlie support for the various positions.

Anti-poverty programs can be designed in a number of ways. Although methods of financing can vary widely, the main difference between alternative designs is the way in which benefits are provided. Benefits can be universal (available equally to all who fall within the scope of the program) or selective means tested, and categorical or non-categorical. Most Australian income security is provided through categorical means-tested programs.

In contrast, the analysis developed earlier in this paper lent support to a universal non-categorical approach. The Poverty Inquiry
and recent American analysis has also argued strongly for this option.

'... programs that provide benefits to everyone, in combination with any politically feasible range of tax rates in the positive tax system, will provide greater net benefits to the poor, the near poor, and lower-middle income groups and cost more to upper income groups than programs that restrict benefits to the poorest.'

The case against means testing rests on a number of arguments. First, there is the argument that means tests reduce the opportunity of the poor to better themselves through hard work because they impose very high tax (benefit reduction) rates on the poor. In the extreme case of 100 per cent rates, such as applied to income over $60 a week received by unemployment beneficiaries, this opportunity is completely removed.

Second, subjecting rich and poor alike to the same set of rules reduces the likelihood of differential treatment by income class. Some differential treatment is, of course, still possible within universal programs. Third, universal programs are likely to have more political stability than means tested programs because they provide net benefits to so many more people. Fourth, means tested programs create a sharp distinction between beneficiaries and non-beneficiaries. This accentuates class divisions, while universal programs mute such division.

All of these differences between programs, are related to the values of equality and integration. Means-tested programs segregate the poor in separate, politically vulnerable programs, which exacerbates class distinctions and encourages the poor to work less, save less, and cheat more. Universal programs integrate the poor into society by treating them more equally, subjecting them to the same set of rules and same incentives that apply to the rest of the community. By increasing over-all economic equality universal programs also integrate the poor into society more than means-tested programs do with the same basic benefits.

Arguments against universal programs have been well developed in Australia by organisations such as ACOSS.
Because universal programs cost more to the wealthy than income-tested programs, it might be argued that they reduce the incentives to become wealthy. Related to this is the argument that the total gross national product might be smaller under universal programs. What little evidence we have, however, suggests that the disincentive effects of high tax rates on the wealthy range from trivial to non-existent.

To understand why economists and policy analysts have become so focussed on means testing, we must recall the political environment. Since the mid-1970s, the income security policy debate has taken place in an environment in which most people accepted that the budget for social security was more or less fixed at current low levels.

In the case of fixed budget constraints, means-tested programs are clearly better than universal programs, in the narrowest economic sense, for the beneficiaries. For example, if $100 million can be spent on either a children's allowance or a negative income tax, the poor would get more dollars out of the latter since the benefits in the former would have to be spread over all children. If the total budget available for universal and means-tested programs is the same, there is a case for means-tested programs on distributional grounds. Many groups who advocate means-tested programs do so with the intent of championing the poor and believe that the total budget will be the same whichever program was chosen. If the basic benefits are to be the same for both programs, however, universal programs are better for the poorest beneficiaries because their net tax rate is lower.

Which type of program is better for the poor, therefore, depends on whether the total budget or the basic benefit is to be the same for both - which is quite clearly a political issue. At present, there is no conclusive evidence that in the long run basic benefits in universal programs will be lower than those in means-tested programs - so long as there are people who fight for universal programs. This qualification is important. It indicates that whether budgets or basic benefits are the same for programs is a political question. Unless political outcomes are inevitable, what advocates of the poor do will help determine whether the budgets or benefits will be the same for universal and means-tested programs.
The implicit assumption that taxes and expenditures should be considered fixed in any universal income-tested program has found its way into the denominator of target efficiency, a criterion invented by economists and adopted by governments to evaluate alternative transfer programs. Target efficiency is simply the proportion of the total (gross) benefits of a program that goes to the poor. Such a measure may have little to do with economic efficiency. From the point of view of upper-middle and upper-income people who care only about raising the incomes of those with no income of their own — generally the poorest of the poor — a means-tested program is obviously more efficient than a universal program; however, that is just another way of saying again that means-tested programs are less costly than universal programs to upper-middle and upper-income families.

Cash versus In-kind Transfers

When we turn to the hard task of developing policies to reduce inequality and eliminate poverty we are confronted almost immediately by what Arthur Okun has referred to as 'the big trade-off' between equality and efficiency. At many points in policy development we face choices that offer somewhat more equality at the expense of efficiency or somewhat more efficiency at the expense of equality. As much as anything, this trade-off arises out of the contradictions between the political principles of democracy and the economic principles of capitalism. In theory at least, political and social institutions within a democracy aspire to the provision of universally distributed rights and privilege that proclaim the equality of all citizens. But the economic institutions of capitalism generate substantial disparities among citizens in living standards and material welfare.

Okun's analysis provides a number of useful insights for poverty policy apart from establishing quite clearly the pre-eminence of the forces supporting efficiency in current social policy debate. One of the more important is his argument for promoting equality (with some cost in terms of efficiency) by establishing social and political rights that are distributed equally and universally and that are intended to be kept out of the marketplace.
fulfilled (minimum wage laws) would be unnecessary.'

Despite the principles of universal rights espoused by democracy it is clear that the marketplace transgresses on most rights. Money buys legal services that can obtain preferred treatment before the law; it buys influence with politicians and public servants and this compromises the principle of one person, one vote. There are two basic kinds of remedies to this intrusion of the marketplace. One of these countervails the resources available to the rich by providing publicly financed resources to the poor; but so long as the rich are able to draw on their own resources, this approach sets a floor without the ceiling needed to substantially reduce inequality. The alternative remedy involves upside-down economies - it tries to make the socially undesirable production process less 'efficient'. On Okun's analysis, the provision of public financed resources for the poor seems more likely to succeed.

This argument, provides a persuasive underpinning for arguments supporting public sector provision of a range of goods and services crucial to people's survival and development. It is well documented that the marketplace is unable to produce and distribute housing equitably to all people; similarly, legal services and medical care are either generally unavailable or available at lower standards to people with little or no money, unless governments support more equitable distribution. In other words, if we are to achieve more equitable distribution of such basic goods and services as housing, medical care, governments will have to ensure at least a minimal level service is available to all through the public sector.

This paper began with the somewhat optimistic statement that poverty could be eliminated in Australia if certain conditions were met. One of the most important changes must be to shift the focus of the poverty policy debate away from income poverty and towards concern with the disparity in control over resources and styles of living between different groups in society. As a recent comparative study of income transfer programs concluded, the elimination of income poverty (as presently defined) lies within relatively easy reach. On Beckerman's analysis, additional expenditure of around 1 per cent of gross domestic product (GDP) would remove Australia's poverty gap. The important questions are not whether a country as rich as Australia can eliminate income poverty, but why we remain so mean
in our unwillingness to do so, and why so many Australians are totally dependent on pensions and benefits for their income. As Beckerman asks:

'... how is it in modern developed democratic societies where the bargaining position of employees is generally incomparably greater than at the turn of the century, where full employment has been reasonably successfully maintained and where large families are now exceptional, a large proportion of GDP has to be spent in order to prevent about ... one quarter of families falling below the national poverty lines.'

In the short to medium term, the most important initiatives to reduce poverty are increases in most pensions and benefits (particularly supplementary payments) to lift them above poverty line levels, expansion of income support programs for the working poor and implementation of a viable economic strategy to reduce unemployment. Yet these measures can go only part of the way; ultimately their effect is limited by the inequality generated and perpetuated by our major social institutions.

Policy directed at reducing inequality will be as much concerned with nature, causes and cures of opulence as the nature, causes and cures of poverty. Programs designed to modify income and wealth extremes at both ends of the distribution will be at the centre of a strategy. The performance of the primary income-generating mechanism, the labour market, will need to come under increasing scrutiny. Policies will need to be designed that alter and supplement the functioning of the labour market and the income distribution that it yields. Similarly, the structure of the tax transfer system will need to be altered to improve its effectiveness in reducing income and wealth extremes. Wealth, or net worth taxation, increases in effective income tax rates by reducing tax avoidance and broadening the income tax base, are likely to be the most effective instruments for reducing inequality.

The elimination of poverty and any substantial reduction in income inequality will quite clearly require an increase in public expenditure to be financed by tax reform. The essential components of such a program should include an overhauled and expanded income security system, a reformed tax system resulting in higher effective tax rates on upper income recipients, increased expenditure on a range of publicly-provided services, particularly housing and health
care, and a restructuring of labour markets to counteract their tendency to increase the spread of earned income between high and low earners. These measures extend from job creation to expanded measures to supplement earnings.

In advocating such a program, however, Peter Sheehan's warning must be noted:

'The structure of social inequality in Western societies is both pervasive and deeply entrenched, and to be efficacious, programmes must be thoroughly thought out and planned in detail and must be applied consistently over long periods of time. This latter requirement - the need for consistent application over long periods of time - implies not only the need for detailed advance planning, but also that the structural initiatives be consistent with and integrated into a medium term economic strategy.'
In strict economic terms most of the universal rights citizens have within our society, such as the rights to freedom of speech and religion, to vote, to leave the country, are inefficient. Okun argues these 'inefficient' rights are justified via three routes: libertarian, pluralistic and humanistic. Libertarians argue that rights protect the citizen against the encroachment of the State which thus convey benefits that far outweigh any cost of economic inefficiency. As Okun observes: ' ... the nice thing about universality and equality is that they are identifiable and objective criteria and hence hard to achieve'. Pluralist arguments view rights as a protection against the market domination that would arise if everything could be bought and sold for money. 'Everyone but an economist knows without asking why money shouldn't buy some things.' The third explanation for rights stresses their recognition of the human dignity of all citizens.

Presuming the argument for the notion of rights is accepted the critical question becomes: how and where should we draw the boundary lines between the domain of rights and that of the marketplace? Quite clearly, the lines are not easily drawn, and as Okun observes, issues surrounding the extension and implementation of a formal right to a decent existence and an opportunity to participate in social decision making are at the heart of current controversies about guaranteed minimum income schemes, health insurance and the role of public housing.

Once political and civil rights are seen as integral to human dignity, provided to all citizens outside the values of the marketplace, it becomes clear why they shouldn't be bought or sold for money. Okun provides an example of minimum wage laws and work safety legislation. 'Some economists strain to understand the sources of minimum wage laws ... As I read the laws they declare that anyone who takes on an absurdly underpaid or extremely risky job must be acting out of desperation. That desperation may result from ignorance, immobility, or genuine lack of alternatives, but it should be kept out of the marketplace. Recognising that objective still leaves plenty of room for debate about the proper scope of these laws. With these bans society assumes a commitment to provide jobs that are not excessively risky or woefully underpaid. That commitment is often regrettably unfulfilled and, perhaps, if it were