

Reshaping Australian Social Policy

Changes in Work, Welfare and Families

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and Anthony O'Donnell



Committee for Economic Development of Australia

The Committee for Economic Development of Australia (CEDA)



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Foreword

The papers gathered here grew out of a series of seminars held in Melbourne between March and August 2000. The seminars were part of the first phase of a research project entitled 'A New Social Settlement: Rethinking Social Policy Across the Life Course'. This two-year project aims to develop a framework for rethinking the future of social policy in Australia, with an emphasis on labour market and household change.

Increasing income inequality and emerging forms of labour market disadvantage suggest the breakdown of the postwar social settlement based around standard employment relationships, the male breadwinner family model and residual social security. This breakdown is accompanied by the emergence of new risks, often mutually reinforcing. There is the economic risk faced by the individual worker engaged in precarious employment arrangements within a volatile labour market. This is compounded by the social risk that arises as household relationships, once an important redistributive system, become, like work relationships, increasingly serial and contingent. Finally, there is the political risk arising from the collapse of the consensus around state capacity for intervention, expenditure and the provision of public services.

The New Social Settlement project aims to identify how transformations in Australian working life and family life affect well-being across the life course. What is increasingly clear is that the lifetime experience of that cohort of Australians who entered the labour market or formed families after the mid-1970s will vary greatly from that of the immediate postwar generations. The new types of arrangements that have been identified in both working life and household formation will not be confined to the periphery of society or the labour market and will require new policy responses.

The project will focus analysis on how labour market and household change demand a new set of approaches in key policy areas. As well, a series of three roundtables will develop a framework for a New Social Settlement based on an alliance between industry, community and government.

The project involves research partnerships between Professor Brian Howe of the Centre for Public Policy at the University of Melbourne; Associate Professor Linda Hancock of the Public Policy and Governance Program at Deakin University; Associate Professor Maryann Wulff of Monash University; the Brotherhood of St Laurence and the Committee for Economic Development of Australia. Funding has come from the Australian Research Council, the Brotherhood of St Laurence, the Committee for Economic Development of Australia and The Myer Foundation.

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Executive Summary

The work presented in this issue of *Growth* aims to critically analyse shifts in working life, household relations and the economy and to begin to tease out the implications of such shifts for social policy.

In their introduction, Anthony O'Donnell and Linda Hancock explore the notion of the social settlement. This refers to that ensemble of structures, policies and institutions that work to secure people's well-being. They examine the historical development of a particularly Australian social settlement and its consolidation in the decades following World War II. In this period the established post-Federation structures of economic 'defence'—tariff protection and centralised wage fixing—were supplemented by a commitment to full employment. It was a model based on quite specific assumptions about working life and social relations, especially the desirability of uninterrupted full-time paid employment for men and married women's full-time unpaid work in the home. After giving an overview of key changes in working life and family life, O'Donnell and Hancock suggest that the lifetime experience of that cohort of Australians who entered the labour market or formed families after the mid-1970s will vary greatly from that of the immediate postwar generations. This poses key challenges to established social policy responses in the areas of workplace relations, income security, caring, housing, education and training, and the capacity to manage transitions into and out of the workforce.

John Buchanan and Ian Watson provide a detailed account of changes in working arrangements over the past three decades. Historically, the Australian social settlement was associated with the 'wage-earner model' of working life. Increased labour force participation by women, unemployment, sectoral change, new management strategies and shifts in labour market regulation have placed this model under pressure.

Buchanan and Watson examine the new world of work in terms of hours of work, the incidence of low pay, work intensification, access to training, worker satisfaction and the 'churning' of workers between low-paid intermittent employment and unemployment. The evidence indicates that the risks associated with labour market restructuring are falling unevenly, suggesting a labour market in which earnings, hours worked and job opportunities are increasingly polarised.

Economic restructuring is also linked to demographic shifts. Increased labour force participation has produced financial and social rewards for women. However, the market continues to produce risk-averse workers for whom children are a considerable risk. As a result, for the past twenty years, almost all industrialised countries have had rates of birth that are below the level that reproduces the population. Evidence presented by Peter McDonald indicates Australian fertility is very definitely still on the way down. The collapse of birth rates in most industrialised countries is telling evidence of the failure of the market approach to allow social reproduction to proceed. Australia is facing a dilemma in how to maintain social reproduction in combination with a free market approach to economic production.

The lifetime experience of those who entered the labour market or formed families after the mid-1970s will vary greatly from that of the immediate postwar generations. This poses key challenges to established social policy.



Economic and demographic changes also imply a shift away from the established Australian model of housing provision. The linear housing ‘career’ appears to be on the wane. Partnering and home ownership are more likely to now occur before marriage and having children. This means that home ownership may occur at a younger age, but fewer people are entering overall. Although the aggregate rate of home ownership has remained steady, this hides a declining home purchase rate. Maryann Wulff suggests that one implication of this shift is that private rental tenure assumes a new importance for workforce-age households. However, it is an importance not foreseen in a public policy environment traditionally oriented toward high home ownership. Once seen as a ‘stepping stone’ or transitional tenure, the private rental market is characterised by few institutional investors and by dwellings that, from year to year, are often interchangeable between rental stock and owner-occupied housing.

The erosion of traditional sources of assistance—the standard employment relationship, the nuclear family, the local community—demands a greater role on the part of the state.

Over the past three decades, social policy in Australia has tried to adapt to the new and emerging patterns of work and household formation. It has done this through providing a mix of new services, increasing targeting and extending the categories covered by government transfer payments. In this it has followed a strategy mapped out by the Henderson Inquiry twenty-five years ago. The system demonstrated its resilience by weathering a major adverse shock—the end of full employment—with its fundamental values intact. During the period of the Hawke/Keating Governments increased redistribution countered the trend to inequality generated by the labour and asset markets. Ian Manning argues that such a strategy may have reached its limits, politically and administratively. In the absence of a global economic revival, it will not be easy to manage a combination of generally declining incomes with increasing inequality, both between families and between geographic areas. New and sustainable forms of redistribution need to be explored. Whatever its effect on market incentives (which can often be favourable), redistribution can make a major contribution, not only to justice, but to the workability of the world macro economy, and to national macro economies.

At minimum, the state is often seen as having a residual responsibility to provide assistance that is activated whenever others with more primary responsibility prove either unable or unwilling to discharge it. The erosion of traditional sources of assistance—the standard employment relationship, the nuclear family, the local community—therefore demands a greater role on the part of the state. The destandardisation of needs represented by the increasing diversity of people’s labour market and family experiences also presents a challenge to established social policy approaches. Yet states have responded by backing out of the business of social provision, or hedging provision with increasing conditionality and discretion in an attempt to respond to individual circumstance. Robert Goodin argues instead that we ought to be thinking in terms of less conditional schemes of social protection.

A ‘guaranteed minimum income’ scheme or a form of broad ‘participation income’ is better suited to the increasingly non-standardised world towards which we are moving. In such circumstances we simply have to give up, not only on means-testing, but on conditionality of any form.

Introduction: The Challenge of Reshaping the Social Settlement

Anthony O'Donnell and Linda Hancock

The work presented in this issue of *Growth* aims to critically analyse shifts in working life, household relations and economy and to begin to tease out the implications of such shifts for social policies across people's life course. The impetus behind such an approach is the sense that the postwar social settlement, based around standard employment relationships, the male breadwinner household and a residual welfare state, is breaking down. What is increasingly clear is that the lifetime experience of that cohort of Australians who entered the labour market or formed families after the mid-1970s will vary greatly from that of the immediate postwar generations. The challenge that follows is to arrive at a new ensemble of policies—around workplace relations, income security, caring, housing, education and training and transitions into and out of the workforce—that is responsive to the changes outlined here.

Life courses and social settlements

An approach to these questions is usefully informed by two concepts: that of the life course and that of social settlement. Both are well established in policy analysis. In the late nineteenth century, Seebohm Rowntree, investigating the incidence of poverty among workers in York, concluded that 'five alternating periods of want and comparative plenty' marked the life of the labourer. There were three periods when poverty was more likely: early childhood, the child-bearing years and old age. These periods contrasted with early adulthood, when a worker, usually free of family responsibilities, was able to earn an income adequate for his or her needs, and that period when a family's children began to earn on their own account and before the breadwinner retired from the labour force.

Of course, Rowntree's study was not a true life course analysis. Rather than following individuals over time it merely showed how poverty was distributed across age groups at a given point in time.¹ Furthermore, Rowntree's subsequent research in the mid-1930s and then again after World War II showed that the distribution of poverty across age groups itself altered over time. Between the turn of the century and the end of World War II poverty ceased to be the normal condition of the working classes and the dip in living standards at the family formation stage became far less pronounced.

We can attribute this shift in the life course distribution of poverty in the first half of the twentieth century to a number of factors. In part, it reflected declining fertility and smaller family sizes. It also reflected a changed labour market, with intermittent and casual labour increasingly replaced by permanent full-time waged work for men and full-time domestic work for married women with children. It also reflected welfare state intervention, especially the development of aged pensions and payments for children.

This combination of demographic, labour market, household and welfare state arrangements is what we have in mind when we refer to a postwar 'social settlement'. It is a rather loose and open-ended way of describing those inter-connecting structures, policies and institutions that work to secure people's well-being.²

This idea of a 'social settlement' has a particular resonance in Australia's case. The term, or something similar, has been used by a range of commentators to describe

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Under the federation settlement compulsory arbitration, centralised wage-fixing and uniform award coverage, along with the restriction on non-white immigration, ensured a high-wage labour market for workers.

the public policy framework in Australia across much of the twentieth century.³ Most notably, Frank Castles identified a ‘historical compromise’, brokered in the first decade of Federation, whereby compulsory arbitration, centralised wage-fixing and uniform award coverage, along with the restriction on non-white immigration, ensured a high-wage labour market for workers, while tariffs on imports secured a protected domestic market and profits for manufacturers.⁴ This settlement or compromise aimed to redistribute the national income among white men and their families.

Castles’ account is compelling for a number of reasons. First, it highlights the explicit welfare function served by wage-fixing in Australia. That is, Australia achieved a high level of social protection by means other than the ‘welfare state’ narrowly conceived. Second, and following from this, Castles’ analysis explains why Australia’s welfare state for much of the twentieth century remained distinctly residual in character. That is, welfare—as opposed to wages—was concerned with provisioning those who, for various socially legitimate reasons, found themselves outside the labour market.

Yet the Federation settlement depended for its success on two preconditions: for adult men, that they could find a job, and other family members, that they could secure themselves a breadwinner. What Castles referred to as the ‘wage-earners’ welfare state’ depended, at the level of the labour market, on the generalisation of the wage-earner model, and, at the level of the household, on the male breadwinner/female carer model of the nuclear family. In fact, it would be several decades before either of these became widespread.

Most starkly, the high unemployment of the Depression upset the assumptions of the wage-earners’ welfare state. This unemployment was dissipated by the onset of World War II, but the fear that joblessness would return in peacetime was a prime policy concern of the wartime period. As it happened, the wartime experience paved the way for a radically new form of economic management, whose centrepiece was a commitment to full employment, and which saw historically low rates of unemployment prevail from 1945 to 1974. Across this period, protection for industry was sustained and pent-up consumer demand, increased foreign investment, a large immigration program and high fertility helped sustain the full employment economy. In 1966 the male share of employment was 70 per cent, and around 60 per cent of this employment was in the primary and secondary sectors. The largest occupational group—at 36 per cent—was trades worker.⁵

The spread of this particular type of industry structure also led to the diffusion of a particular form of employment relationship. Up until World War II, the labour market had been dominated by casual labour, contractor-based work and forms of ‘self-employment’; after the war, the growing dominance of large, vertically integrated enterprises in the mass assembly and resource-extraction industries saw the emergence of work relationships based around full-time contracts of indefinite duration as the male employment norm. Within this work arrangement, many of the conditions of work were regulated by awards made by the industrial tribunals. These awards were complex and intricate standards governing not only pay, but hours, overtime rates, sick leave and holiday leave, rosters, work demarcations, redundancy, dismissal and severance procedures (in short, many of the areas that, in other countries, are regulated or provided for through the social welfare system).

The postwar economic model, in Stephen Bell's analysis, 'overlaid and more or less complemented' the earlier developmental model established by the Federation settlement, whose components (protectionism, arbitration, residual welfare payments) were 'consolidated and extended but not fundamentally altered by the arrival of the postwar ... model'.⁶ Importantly, the Australian settlement was also extended and consolidated through the rapid rise in marriage during the postwar period. For the three decades from the early 1940s to the early 1970s, the age of first marriage for men and women dropped steadily and the marriage rate rose steadily.⁷ In effect, an increasing number of women gained access to white male wages through a 'breadwinner'. The state of marriage became pervasive, giving rise to an ideology of domesticity. It was an ideology given impetus by the rapid extension of single-dwelling houses built on greenfield sites for young couples. As Maryann Wulff's chapter in this volume points out, the level of home ownership rose from around 50 per cent at the end of the war to over 70 per cent by 1966. These 'independent' middle-class households were in fact sustained by a high level of government subsidy delivered through the tax system and women's unpaid work and financial dependency within the household.

What we are referring to as the Australian 'social settlement' therefore refers to a relatively brief period, from the end of World War II to the end of the 1960s. There are also several caveats that should accompany our use of the term. The first is the recognition that many strands of Australia's past will fall outside any 'tidily packaged' settlement. Often hindsight produces the illusion of certainty, whereas twentieth-century Australia was riven by conflicts of various sorts.⁸ The postwar period itself was marked by anxieties that peace and prosperity would not last or, if they did, that consumer society, technological change and mass immigration would destabilise traditional forms of life.⁹ At the same time, reliance on residual and clearly inadequate welfare payments for those outside the wage relationship—the elderly, single mothers, the long-term sick, recently arrived immigrants and Aborigines and Torres Strait Islanders—led to notable pockets of poverty in the midst of affluence.¹⁰

Changing work

This edition of *Growth* begins the process of charting how the assumptions underpinning the postwar way of life have begun to dissolve over the past two decades. The absence of sustained economic growth, changing cultural and social aspirations, technological change, new management strategies, substantial shifts in macroeconomic policy and greater exposure to global markets have all contributed to this dissolution. Many of the changes are in fact the working out of long-term trends, such as the increase in female participation in paid work, the growth of service sector employment and a growing occupational share by professional and managerial workers. Other changes—high rates of unemployment, the erosion of the centralised award system, the decline in public sector employment, the diversification of employment arrangements—represent instead a break with or reversal of postwar trends, or a return to prewar trends.¹¹

The contribution to this volume from John Buchanan and Ian Watson charts the radical shifts in labour market organisation that occurred in Australia in the 1980s and 1990s. These shifts are linked with major changes in both labour supply and labour demand. Buchanan and Watson conclude that most indicators point to a qualitative change in individual employment relationships across broad sectors of

The postwar way of life has begun to dissolve. The absence of sustained economic growth, changing cultural and social aspirations, technological change, new management strategies, shifts in macroeconomic policy and greater exposure to global markets have all contributed.



Radical shifts in labour market organisation have occurred in Australia in the 1980s and 1990s.

The measure of unemployment at any given point in time is becoming less helpful as an indicator of the health of the labour market.

the labour market. In particular, there has been a decline in full-time, permanent jobs and a growth in those forms of employment—part-time, non-permanent, fixed-term and temporary—that provide managers with tighter control over how labour is employed on the job to ensure all hours worked are productive. Similarly, if the postwar period was marked by the vertical integration of firms and the spread of the wage-earner model, then recent decades have seen a vertical disintegration of firms, as businesses outsource many of their functions and construct labour supply arrangements unfettered by the legal and financial obligations associated with the employment contract.¹²

To some extent, these types of arrangements always characterised certain sectors of the labour market, particularly female employment. What is noteworthy is their extension to those workers—mainly male—who previously enjoyed the protections of the standard employment relationship: middle managers, public service professionals, unionised blue collar workers and so on.

As Buchanan and Watson point out, these shifts in employment arrangements relate to changing patterns of labour supply and demand and predate extensive changes to the legal regulation of industrial relations. However, since the late 1980s the nature of the external regulation of workplaces has changed quite dramatically, giving employers even greater freedom to devise new forms of working arrangements. Over the past decade governments have encouraged the use of enterprise-level bargaining as the preferred means of regulating relationships between employers and employees, while maintaining the award system as a ‘safety net’. The Coalition Government has intensified this process with measures that limit the scope and weaken the status of awards, and marginalise the role of third parties, such as the Industrial Relations Commission and trade unions, in bargaining.¹³ The postwar system of centralised wage-fixing, where awards set industry-wide standards that became generalised across the workforce, allowed most white male workers and their households to piggyback on the wage rises secured by more powerful workers. For a decade now, rises have been at least partially linked to the productivity of individual enterprises and/or the bargaining strength of specific groups of workers.

Certain institutional safeguards mean that low pay has not spread to the same extent as in countries with a more deregulated labour market, such as Britain and the United States. However, the wage position of those reliant solely on awards or in poorly unionised workplaces—typically areas of high female employment—has declined relative to those workers able to bargain strongly at the enterprise level, and to managerial and executive employees.¹⁴ Increasing wage dispersion dates back to the mid-1970s, and is partly linked to changes in the composition of employment, with employment growth strongest in both high- and low-skilled occupations and weak in the middle range of skills.¹⁵ However, a large part of the polarisation is also due to inequality within occupations and skill groups,¹⁶ suggesting a link with shifts in bargaining power at the enterprise level.

In the face of such complex changes, it is clear that the measure of unemployment at any given point in time is becoming less helpful as an indicator of the health of the labour market or workers’ well-being.¹⁷ Buchanan and Watson outline the outcomes of the shift away from the postwar wage-earner model, looking at hours of work, the incidence of low pay, work intensification, access to training, worker satisfaction and the ‘churning’ of workers between low-paid intermittent

employment and unemployment. This and other studies indicate that the risks associated with labour market restructuring are falling unevenly, suggesting a labour market in which earnings, hours worked and job opportunities are increasingly polarised around age, skill, gender, family type and geographic location.¹⁸

Changing households

It is artificial to quarantine any discussion of labour market change from one of household change. People's well-being is sustained by a mixture of non-paid work within households and paid work in the labour market, yet an individual's responsibility for one will to a large extent determine the nature of their availability for the other. Non-market work involves many components, and its gendered division and relation to labour market circumstance has been extensively studied.¹⁹

In his chapter in this volume, Peter McDonald looks at one important determinant of household work: fertility and the presence of children. He pinpoints a clear tension between a market liberalism that encourages women to develop their human capital and sell their labour, and a social conservatism that maintains a gendered division of work in the household. He suggests that families are resolving this tension, in the absence of appropriate social policy responses from governments, by deciding to reduce their fertility.

The increasing labour force participation of women, especially middle-class married women, results from an amalgam of factors: changing aspirations and cultural attitudes; new patterns of labour demand in a changing economy; and changing patterns of child-bearing. Women are becoming more available for employment and are spending less of their lives with responsibility for children; first births are occurring later, completed families are smaller, and more women are remaining childless. The presence of children still represents a major divide in women's labour force participation, although recent cohorts of women are returning to paid work more quickly after the birth of a child than before. This overall pattern in turn hides important socioeconomic, geographic and ethnic differences in the labour force participation of mothers.

The increased participation by women in paid employment fundamentally changes the interaction between households and the labour market. Aggregate patterns of rising female labour force participation and declining male labour force participation might suggest that women's increased access to paid work is balanced by men's increasing responsibility for unpaid work. We know this is not the case.²⁰ This is partly reflected in the fact that the decline in the male participation rate has been centred on the loss of full-time jobs; the increase in female participation has largely been in part-time work. Related to this, there has been a growth in two-earner households and no-earner households. This suggests that at any point in time mothers' increased labour force participation is supplementing fathers' paid work in particular households, not substituting for it. The growth in no-earner households further confirms that the growth in women's labour force participation is not a general trend but hides an increasing polarisation of women's experience along lines of class and education,²¹ geography,²² and ethnicity.²³

One implication of increased participation in paid work at the household level is that less work-intensive households are increasingly marginalised. Single mothers who, through a mix of constraint and choice, remain outside the labour force to raise their children have come under greater political and administrative pressure

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Those households in the top part of the income distribution are those that have increased their workforce participation over the past two decades; those with declining workforce participation are now clustered in the bottom 40 per cent.

as expectations about the employment of mothers have grown.²⁴ But married-couple families who are not heavily involved in the labour market are also being economically marginalised by the market itself. That is, those households in the top part of the income distribution are those that have increased their workforce participation over the past two decades; those with declining workforce participation are now clustered in the bottom 40 per cent.²⁵ Two-earner households have a notably lower risk of poverty than other households, with parents' earning status having a marked effect on children's poverty.²⁶

Overall, then, the link between full-time male breadwinner wage levels and household living standards—relatively unproblematic in the postwar period—has been weakened, with an increasing diversity of families' income trajectories determined by the number of earners in a household. The presence of a second earner helps meet the increased needs imposed on families in their working years: higher housing costs; prolonged financial dependency of young people within the household; increased contributions to new 'user pays' services (including fees for higher education and retirement savings); as well as the costs associated with increased labour force participation itself (most notably childcare).

Of course, more work-intensive households and less work-intensive households do not represent an either/or scenario. The same individuals are often involved in both types of household over time, due to divorce, repartnering or redundancy. If income pooling provides a hedge for those households fortunate enough to be able to intensify their paid work effort, it must be remembered that households themselves are becoming increasingly precarious. The link between sole parenthood and poverty remains strong in Australia, and is in turn linked to the inability of such households to maintain work intensification.²⁷

A new life course?

The interaction between labour market and household circumstance leads us back to the notion of the life course analysed by Rowntree. The postwar social settlement saw Rowntree's poverty cycle superseded by a poverty gradient. People were generally less likely to be poor in the latter stages of working life than in the earlier stages. Household income over the life course was structured by the career paths of male breadwinners which brought progressively higher wages with longer work experience.²⁸ The regularisation of working hours also allowed access to 'overtime', an important source of extra income for many workers. The period of the life course where housing purchase and family formation increased household needs thus tended to coincide with the period in which household earnings also increased for many people. This also resulted in the accumulation of assets—most notably the family home—that could offset reduced earning capacity in old age.

The idea of a gradient implies two important features of the postwar life course: that it was a linear progression, and that the progression was through a series of age-related transitions.²⁹ As Fred Block characterised it, early entrance into the workforce and late retirement meant that working-life dominated men's adulthood while women were primarily responsible for child-rearing:

A man grew up, got his job, got married, formed his own household, had children, lived with his wife after the children left, died. A woman might work briefly before marrying but then would settle into a lifetime of domesticity. For both, there were no sanctioned reversals such as divorce, career switching, or going back to school. These happened, but the overwhelming cultural pressure was toward uniformity around the linear life course.³⁰

Our discussion so far of labour market and household change implies a breakdown of this life course model. First, if career-based, continuous and full-time employment is no longer the norm, or if wages are stagnating for sectors of the workforce, the upward economic mobility inherent in the postwar model is curtailed for some. Upward income mobility is still a reality for many young people who start out on low wages, either because they are combining low-waged, part-time work with higher education and stand to benefit from their extended education, or are commencing full-time work which will bring increased rewards with experience. However, around a quarter of young adults are in neither full-time work nor education. They may be out of the workforce, unemployed or in part-time work, with evidence that, for this group, such work does not automatically lead to secure full-time employment.³¹ Meanwhile, the majority of the low-waged are prime-age workers experiencing either downward mobility or exit from the labour force (mostly men) or stuck on a 'merry-go-round' with little prospect of enhancing future earnings (mostly women).³² The situation is exacerbated by the fact that job turnover is highest in lower-skilled white- and blue-collar occupations, suggesting a churning of workers between 'low pay' and 'no pay'.³³

Secondly, what counts as 'workforce age' has changed, as people stay in education longer and retire earlier, which means full-time work for many men—and hence high incomes—is now concentrated in a relatively short period between the ages of 35 and 55.³⁴ Low incomes for young adults, whatever the cause, delay the establishment of independent living arrangements, partnering and parenting, as well as decreasing the level of savings for old age. In short, the concentration of working life in a compressed period exacerbates many of the problems of reconciling paid work and family responsibilities.

Third, an increase in women's paid employment might be expected to increase households' income in the middle years of the life course, and has been recognised for some time as assisting access to home ownership in a time of declining affordability. But the converse is that at certain life stages for some groups—those increasingly unable to access childcare³⁵ or maternity leave, for example—employment interruption in the early years of a child's life may produce a risk of poverty greater than in Rowntree's time.³⁶ That risk is greatest for women with dependent children maintaining households on their own. Thus the very diversification of households, like the diversification of work arrangements, is producing increasing numbers of people who are vulnerable with regard to key life course transitions.

According to the postwar conception, the areas of housing and education represented clear instances of life course progression. In housing, this took the form of leaving the parental home, progressing through various tenures, and culminating in home ownership. Today, the linearly developing housing 'career' appears to be on the wane.³⁷ As Maryann Wulff points out in her chapter, the steady aggregate rate

Household income over the life course was structured by the career paths of male breadwinners which brought progressively higher wages with longer work experience. Changes to the labour market and household change imply a breakdown of this life course model.



Whereas postwar life course transitions tended to be few, predictable and linear, the emerging life course appears to comprise transitions that are multiple, random and recurring.

of home ownership hides an underlying shift in who is accessing ownership: between 1975 and 1995 the propensity for home purchase declined for several groups, in particular young couples with children. Younger households wishing to buy homes in the 1980s faced greater purchase costs and higher interest rates, as well as competing demands on savings (such as higher education fees and superannuation contributions). Increasingly contingent employment arrangements may also deter individuals from making long-term investments in housing. As Wulff points out, one implication is that private rental tenure assumes a new importance for workforce-age households, but it is an importance not foreseen in a public policy environment traditionally oriented toward high home ownership. Once seen as a 'stepping stone' or transitional tenure, the private rental market is characterised by few institutional investors and by dwellings that, from year to year, are often interchangeable between rental stock and owner-occupied housing.

Similarly, in the postwar conception, education was something undertaken early in life. Enterprises tended to hire either unskilled or inexperienced recruits. Various forms of formal and informal in-service training, in combination with job ladders based on seniority, provided newly-hired workers with opportunities to acquire necessary job skills and promotion. Continuity of tenure also provided the financial and career base for male workers to undertake part-time external education across middle life: by this route draftsmen became architects, clerks became lawyers, bookkeepers became accountants.³⁸ More recently these internal and external routes have been absorbed or displaced by an enlarged system of 'front-end' full-time, formal education. The emergence of more 'flexible' labour markets requires, by contrast, that workers maintain their employability across time. Yet the push for workplace training that gained momentum in Australia in the 1980s was undercut by the collapse of internal labour markets within enterprises. As Buchanan and Watson show in their chapter, firms tended to underinvest in training because they could not be assured of a return on their investment in a climate of increasingly individualised, discontinuous and 'flexible' employment arrangements.

In short, whereas postwar life course transitions tended to be few, predictable and linear, the emerging life course appears to comprise transitions that are multiple, random and recurring. Glennerster has suggested that there is no such thing as a life course; rather, there are life courses.³⁹ Winter and Stone point to uncertainty, 'differentiation', the weakening of age-related norms, and 'disconnectedness', the fracturing of linearity as possible ways of thinking about the re-ordering of life course patterns. But they also point out that the emerging 'risk society' is experienced unevenly. To the contract computer professional, for instance, it may present itself as a host of previously unheralded opportunities; to the casual low-paid service worker or the immigrant piece worker it may mean insecurity and a loss of opportunity.⁴⁰

Similarly, key policy changes can have a clear effect in structuring life course transitions for different groups. One broadly accepted role of the welfare state under 'social insurance' schemes has been to 'smooth out' the bumps in the life course. Mitchell suggests that over the last twenty years the role of the welfare state has moved from income smoothing to a more proactive role. Indeed, she argues that the state now has a decisive impact on the shape and timing of key events in the life course. It does this, for example, through programs and policies that govern

entrance to and exit from the labour market and through the provision (or non-provision) of services to women including childcare and child benefits.⁴¹ It is clear that the ways in which lifetime income distribution is modulated through the social security and taxation systems, including the different effects of taxes and benefits for men and women, young people and retired people, remains a key issue.⁴²

The social policy response

As we noted earlier, the postwar Australian welfare state was a 'residual' one which operated as a supplement to a wider system of social protection based around the wage-fixing system, home ownership and the male breadwinner/female carer division of labour. Despite this, the system proved remarkably adaptable to the new and emerging patterns of work and household formation and re-formation. In some ways it exhibited greater flexibility than the contributory and career-based entitlement systems of social provision in many European countries. Such schemes can tend to facilitate rather than ameliorate new forms of exclusion, providing 'cover to two-income couples that they do not need while simultaneously preventing no-earner couples from establishing an entitlement'.⁴³

This is not to say that the Australian welfare system has been without its faults. Until the 1970s its operation tended to be moralistic and its residual status meant provision was often low. These were the principal issues facing the Commission of Inquiry into Poverty chaired by Ronald Henderson in the first half of the 1970s. The Henderson Inquiry was both a product of the postwar settlement (it did not foresee the extent of change, especially the collapse of full employment, and presumed economic growth would continue) and a critique of it, ably identifying those who lost out. Yet Ian Manning also suggests that the Henderson Inquiry provided a strategy that sustained social policy over the next two decades despite the extent of change. Henderson valued redistribution as a vital strategy to bring about social justice, and this was to be achieved through a greater focus on the adequacy of payments and the use of targeting.

Basic income support payments have been substantially increased in the past three decades, with real increases in rates substantially achieved in the first half of the 1970s (with most payments subsequently indexed to inflation), payments to children substantially increased from the mid-1980s onwards, and rent assistance increased in the late 1980s and early 1990s. Despite his explorations of some sort of Guaranteed Minimum Income scheme, Henderson championed targeting in the short term in contrast to those Whitlam era policy makers who were suggesting a move to universalism or contributory and earnings-related benefits. As Manning points out, targeting became one way to reconcile the increasing demand for social services with the fiscal austerity imposed by governments in a time of low growth. Evaluations since the mid-1990s suggest that the strategy proved remarkably effective, largely containing growing market inequality and alleviating child poverty.⁴⁴

But Manning's analysis also suggests that such an approach may no longer be sustainable. The macroeconomic environment poses an ongoing challenge to the current order through the lack of effective demand, environmental destruction, rising consumerism, and financial instability characterised by recurrent crisis. Targeting, while constraining income inequality, has tended to further residualise aspects of welfare provision, disenfranchising some working households from the

Targeting, while constraining income inequality, has tended to disenfranchise some working households from the welfare system, and has extended poverty-traps.



The challenge now is to conceptualise a means of distributing income through the life course in a time of increasing uncertainty at work and at home.

system, has led to increased administrative complexity, and—in combination with the rise in part-time work—has extended poverty-traps across larger numbers of households.

In his chapter in this volume Bob Goodin suggests two solutions to this impasse of the welfare state given the reshaping of the postwar social settlement (or what he refers to as the ‘destandardisation’ of needs in the face of labour market and household change). The first is to make social support increasingly individualised, a trend seen in the rise of both case management and the outsourcing of welfare services. The second solution is to make social support less rather than more conditional. This could take the form of a ‘participation’ income, a suggestion that draws on the ideas of British economist Tony Atkinson and that is explored in the Australian context by Bettina Cass and David Capps.⁴⁵ The Government’s recent Reference Group on Welfare Reform gives rhetorical if not practical support for this conception of welfare, while providing scant detail on the administrative machinery or payment rates that might characterise such a system.⁴⁶ Notably, however, the Reference Group on Welfare Reform links its idea of a ‘participation support system’ with an emphasis on individualised service delivery, suggesting that Goodin’s alternatives might not represent an either/or option: we might be headed toward a broader, non-categorical form of ‘participation’ income, but one to which increasing numbers of conditions are attached to take account of individual circumstance.

Both Manning and Goodin make it clear that the issue of redistribution must be central to any new social settlement. In this they echo Froud and her colleagues who, in charting the break-up of the postwar social settlement in Britain, argue that:

Redistribution is not just a fading ethical imperative for the better off ... It is a structural necessity because growing inequality influences the composition of demand, upsets the relative prices of goods and services, and thereby creates those who are less fortunate. Without redistribution, late capitalist societies represent an experimental combination of cheap services and low wage imports which create heaven for the rich and hell for the poor who must co-exist in one political system whose democratic future seems increasingly less certain.⁴⁷

The challenge now for social policy is to conceptualise a means of distributing income through the life course in a time of increasing uncertainty at work and at home. We believe a life course framework can be used to pose key policy questions around working arrangements, education and training, income security, family support and housing. A life course framework also emphasises the inter-related nature of ‘careers’ in employment, education, intimate relationships, parenthood and housing. It suggests strategies targeted at specific events, transitions and episodes rather than at static and aggregate ‘problem’ groups such as ‘the’ unemployed, lone parents or the ‘aged’.⁴⁸

Where to next?

We have not used the term ‘social settlement’ to imply postwar policies that were ‘settled’ or uncontested. At this stage we have chosen the term to enable us to be ‘theoretically modest and tangibly concrete’.⁴⁹ That is, while we can identify certain elements that distinguish an Australian ‘settlement’, we recognise that social

settlements were differently organised in different industrialised countries across time. The important point is that in the postwar period it was not just the welfare state or 'social policy' narrowly conceived that ensured well-being, but rather a 'whole way of life'. The immediate challenge is to be 'tangibly concrete' about the extent to which that 'whole way of life'—in Australia at least—is now under pressure. The chapters in this issue of *Growth* represent the attempts to meet that challenge, to help us diagnose the nature of the shift away from the postwar social settlement.

At the same time, they raise, in both implicit and explicit ways, a range of specific policy questions that need to be resolved if we are to move toward some new social settlement that works to ensure people's well-being across the life course. Use of the term 'social settlement' at this stage does not presuppose the values and principles that would underpin a new social settlement, nor does it presume which particular combination of policies, institutions, political sensibilities and social actors will work to address people's material needs and aspirations for the good life under new economic conditions. Nevertheless the issues raised clearly involve the nature of labour market regulation, mechanisms for ensuring income security, the capacity of households to undertake caring responsibilities, the protection of access to appropriate and affordable housing, and policies for education and training, as well as policies directed to those cohorts at either end of a shortened 'working life': young people and older workers. Coherent, integrated policy responses to these issues will need to frame any new social settlement.

Coherent, integrated policy responses to these issues will need to frame any new social settlement.

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1 Beyond the Wage-earner Model

John Buchanan and Ian Watson*

Since the early 1970s most advanced capitalist countries have experienced a deteriorating labour market situation. This has had quantitative and qualitative dimensions. The most significant quantitative dimension has been the return of mass unemployment. While joblessness has fluctuated with the trade cycle, unemployment has settled at a higher level at the end of each cycle. More importantly there is growing evidence that, on balance, the quality of jobs is deteriorating. This is evident in rising levels of involuntary part-time work and the growth in many forms of non-standard employment.

In parallel with these developments there has been a shift in policy about work. Whereas an earlier generation of policy-makers attempted to improve wages and employment conditions directly, belief in the efficacy of such interventions has declined. In English-speaking countries especially, interest in income support and training appears to be replacing an earlier interest in improving the nature and content of work, especially wages and hours of work. The objective of full employment has been eclipsed by the promise of 'full employability'. 'Flexibility' now ranks equally with (if not higher than) fairness in industrial relations and wages policy. Whereas once the labour movement set the agenda in aiming to discipline the market, the current fashion of competition policy and 'deregulation' has meant that its members are increasingly disciplined by market forces. Beveridge's dictum that markets make good servants but bad masters appears to have been lost on many social democratic leaders, especially in the English-speaking world.

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The classical wage-earner model

Since its incorporation into the world economy in the late eighteenth century, Australia has been primarily a provider of cheap services and raw materials for other countries. Its earliest role was as a provider of 'corrective services' (as a penal colony). As the colony matured it became increasingly integrated into the world economy as an important source of raw material, especially wool and precious metals such as gold. The importance of the external sector in the late nineteenth century is evident in the fact that exports and imports accounted for around half of Australia's national production in the latter decades of that century.¹ While precise estimates are hard to find, the data that are available indicate that, at the time, Australians enjoyed one of the highest standards of living in the world,² primarily as a result of labour shortages associated with trade-based prosperity. The high level of trade exposure, however, left Australia vulnerable to fluctuations in the world economy. The worldwide slump of the 1890s hit Australia particularly hard. In the ensuing crisis employers, aided by the state, actively worked to shift the burden of crisis onto labour. This was met with organised resistance from workers, especially defending rates of pay, customary hours of work and rights to organise collectively. Disputes over these issues were most protracted in the export sector: especially the pastoral and maritime industries.

Whereas pastoralists and miners preferred free trade, many manufacturers producing for the home market favoured protection. Following its profound defeats in the field, the labour movement worked to achieve politically what it could not industrially, and formed a labour party. Out of this crucible a cross-class alliance emerged around the key elements of what has been variously described as the 'new protection', 'Federation settlement' or 'Australian settlement'. A key feature of this

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The Australian welfare state gave primacy to regulating the labour market to ensure 'proper' or 'standard' jobs.

was tariff protection for employers. In return for this protection, employers were to provide decent wages and conditions in the labour market as determined by special courts of conciliation and arbitration. Downward pressure on workers' wages and conditions was also to be prevented by the implementation of a 'white Australia' immigration policy. The essential features of this liberal collectivist settlement remained in place for most of the first half of the twentieth century and, following World War II, were supplemented with an array of demand management arrangements.

While this settlement encompassed more than labour market issues, work-related matters were integral to it. Indeed, a core assumption of the settlement was that improvements in living standards would be achieved through interventions in the labour market. Comparatively little reliance has been placed on systems of income support and public sector employment.³ Indeed, international comparative studies of welfare states have characterised Australian arrangements as being different to both North American and European approaches because of the primacy attached to labour market intervention. This approach is often referred to as 'the wage-earners' welfare state' regime. This regime gave primacy to promoting and regulating the labour market to ensure it delivered 'proper' or 'standard' jobs.

The vision of 'standard jobs' informing policy contained the following essential features. The first was the conception of labour supply. It has been a presumption of industrial relations, social and tax policy that most labour is provided by wage-earners. These are workers engaged on a contract of service, working full-time and on a permanent (that is, ongoing) basis. Wage-earners were commonly regarded as being different from both independent contractors engaged on contracts for the provision of particular services and casual workers who had only an intermittent contact with the enterprise. At the beginning of the century it was also assumed wage-earners were male and worked in an 'industry', typically agriculture, manufacturing or construction.

Allied to this was the conception of labour demand. It has been a presumption of economic policy in general and of labour-related policies in particular that jobs are provided by a single employer conceived as being the owner of the enterprise that engages wage-earners. It has also been assumed that there is a fairly fixed relationship between the demand for output and the demand for labour.

The third feature of the Australian variant of the classical wage-earner model was the conception of labour market regulation. The essential feature of this part of the policy model has been the assumption that social progress in the labour market is best achieved through quasi-judicial regulation of wages (especially wage relativities) in conjunction with collective agreements.

The achievements of this policy model in Australia have been considerable, and include early experimentation with new forms of social security, especially for women and children. At many times over the last century and a half Australia occupied a leading position in the reduction of standard hours of work. This began with the achievement of the 8-hour day in key building trades in the 1870s and subsequent achievements of the 40-hour week in the 1940s and then the 35- and 38-hour week in the 1970s and 1980s. Until recently Australia had comparatively high material living standards that were pretty evenly spread throughout the population, arising largely from a compressed relative pay structure.⁴ When

combined with the active management of effective demand in the postwar years, the essential features of the 'classical wage-earner model' of labour market regulation in Australia delivered one of the highest levels of full employment from the 1940s through to the early 1970s.

It is important to acknowledge that inequalities continued to exist. About a sixth of the workforce, for example, came from non-English-speaking backgrounds (especially Southern Europe, the Middle East and Asia). These workers occupied the least attractive jobs.⁵ Despite this, and despite discrimination in the workplace, migrant workers shared in the same underlying benefits as other wage-earners concerning the maintenance of basic standards in wage rates, hours of work and entitlements to sickness, holiday and long service leave as well as standard unemployment income support. Moreover, migrant workers in Australia were never 'guest workers' but were encouraged to become full citizens. Over time, too, women's relative position improved. The landmark equal pay cases in 1969 and 1972 resulted in one of the fastest realignments of gender-based relativities in the OECD at the time.⁶ Consequently, while inequality persisted, the underlying trends involved an increase in the proportion of the population that shared basic wage-earner standards of living.

Pressures on the old settlement

The efficacy and relevance of this model, however, began to break down in the 1960s and 1970s. This was evident in the changing realities of labour supply, labour demand and rising inequality from the 1960s onwards. The labour force participation of women rose from just over 30 per cent to just under 50 per cent between 1966 and 1986. This change to the labour supply had not been envisaged in the model and was only imperfectly incorporated into it, primarily on the basis of employment that was part-time and casual in nature.

The level and composition of labour demand also changed dramatically. The unemployment rate rose steadily from the mid-1970s and in the recession of the early 1990s reached levels not seen since the 1930s. Deindustrialisation of work also continued with significant employment growth occurring in low-wage, service sector jobs.⁷ For example, the proportion of jobs in manufacturing fell from 25.6 to 16.4 per cent between 1966 and 1986. Consequently, employment in services rose from just under two-thirds to just over three-quarters of the workforce. The change in occupations was just as profound. While just over half the workforce was blue collar in 1966, this had fallen to 40.1 per cent in 1986. White collar jobs grew by a corresponding amount, with the growth in professions rising from 7.6 per cent to 11.8 per cent over this period.

Of greater significance has been the change in the workplace setting of all jobs. This primarily concerns the quality and especially the security of tenure of work on offer. Comprehensive data on these aspects of labour demand were collected as part of two large-scale workplace surveys undertaken in 1990 and 1995.⁸ Some of the key findings of these studies are summarised in Table 1.1, which shows the developments in workplace practices concerning the use of casuals and agency workers, the proportion of workplaces reporting retrenchments, levels of unpaid overtime and reliance on outsourcing.

As the 1990s drew to a close only half the workforce was employed on a full-time, permanent basis. Indeed, over the course of the 1980s and 1990s, precarious

As the 1990s drew to a close only half the workforce was employed on a full-time, permanent basis.



categories of employment have grown at a faster rate than full-time, permanent jobs. Between 1988 and 1998 '69 per cent of net growth in the number of employees was in casual employment'.⁹ Casual employment is especially widespread among women workers, where one in three are now employed on this basis. What was particularly significant about developments in the 1990s was that precarious forms of employment became widespread in former union strongholds. In metal and engineering, for example, non-standard forms of work accounted for less than one worker in ten in the late 1980s. In 1999, however, approximately one-quarter of that sector's workforce was engaged on either a casual, labour hire or contractor basis.¹⁰ Similar trends have occurred in the industrially strategic important construction, road transport and warehousing sectors. Employers are now increasingly creating jobs of this nature.

Despite entering the recovery phase of the trade cycle in the mid-1990s large Australian workplaces reported a higher incidence of job-shedding in the middle of the decade than they did just before the recession of the early 1990s.

Table 1.1: Key indicators of restructuring in Australian workplaces, 1990 and 1995

Form of restructuring	1990 (%)	1995 (%)
Workplaces using		
Casuals	64	70
Agency workers	14	21
Workplaces reporting retrenchments		
200–499 employees	26	27
500+ employees	39	44
Unpaid overtime		
Employees whose hours increased but whose pay did not		23
Falling workplace size		
Percentage of workplaces outsourcing since 1990		35
Percentage of employees in 100+ workplaces	46	41

Source: A. Morehead et al., *Changes at Work: The 1995 Australian Workplace Industrial Relations Survey*, Longman, South Melbourne, 1997.

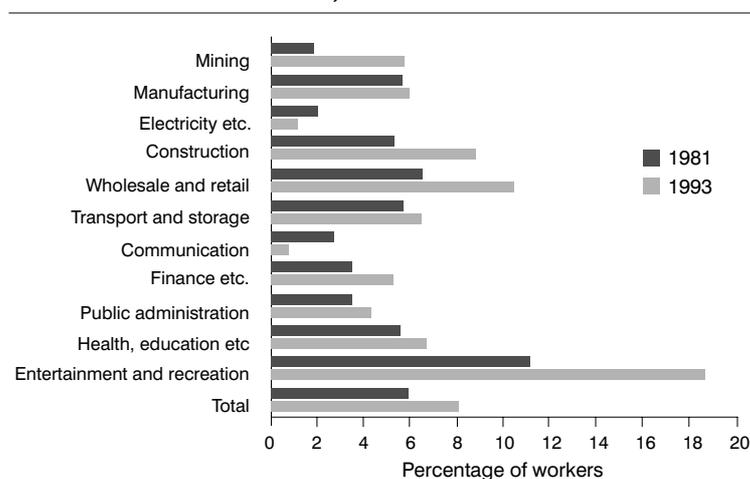
Notes: Data on the use of casuals and agency workers, retrenchments, unpaid overtime and outsourcing come from workplaces with 20 or more employees. Data on proportion of employees at workplaces with more and less than 100 employees come from estimates covering the whole working population.

All these indicators point to a decline in full-time, permanent jobs and a growth in precarious forms of employment which provide managers with tighter control over how labour is deployed on the job to ensure all hours worked are productive. The greater use of casuals, employment agencies, retrenchments and high levels of unpaid overtime highlights this dynamic. Of particular significance is the rising incidence of retrenchments among larger workplaces. Despite entering the recovery phase of the trade cycle in the mid-1990s large Australian workplaces reported a higher incidence of job-shedding in the middle of the decade than they did just before the recession of the early 1990s.

Labour market outcomes accompanying these changes have been significant. Wage inequality increased steadily after 1966. Particular concern has been focused on the bottom of the labour market, and the extent to which the 'poor got poorer'. Jeff Borland, for example, has shown that between 1975 and 1995 the bottom 10 per cent of earners suffered a 9.4 per cent decrease in their real earnings, with increasing deterioration after each recession.¹¹ Significant growth occurred in the incidence

of low-paid service sector work among the male workforce. Not only did men shift from manufacturing jobs to service sector jobs, leading to important changes in the composition of their low-paid jobs, but within those service industries the incidence of low-paid jobs increased dramatically. For example, in wholesale and retail trade the incidence of low-paid jobs jumped from 6.6 per cent to 10.5 per cent, an increase of 59 per cent. In entertainment and recreation the increase was from 11.1 per cent to 18.6 per cent, a rise of 68 per cent. Women, on the other hand, experienced similar compositional change, but the incidence of low paid jobs actually fell across all industry groups. Figures 1.1 and 1.2 illustrate these trends.

Figure 1.1: Incidence of low-paid male workers within industries, 1981 and 1993



Source: 1981 Census Household sample file; 1993 ABS Survey of Training and Education.

Note: Low-paid defined as two-thirds median earnings. All calculations are done with hourly rates of pay. In 1993, the data item used is usual weekly earnings. In 1981, the data item is annual income. There is reasonable comparability between the two years because among low-paid workers, almost all of their income comes from wages (and in 1981, government transfer payments for the working poor were negligible).

Note: Population is all adult employees earning above \$1 per hour (1981) and \$2 per hour (1993).

Since the late 1970s the proportion of full-timers working standard hours of work has dropped significantly and the proportion working very long hours has risen dramatically.

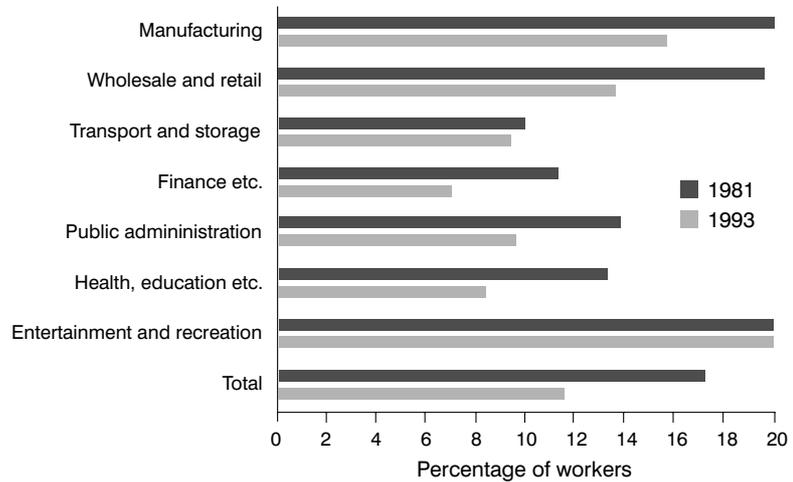
Hours of work were totally recast throughout this period. In the mid-1990s just over one-third of the labour force worked standard hours each week. About one-third worked overtime and just under one-fifth worked part-time. Figure 1.3 summarises the distribution of working time and shows the extent to which standard working time became the preserve of a minority of the labour force.

Among the full-time workforce, working longer became the order of the day. Figure 1.4 shows that since the late 1970s the proportion of full-timers working standard hours of work has dropped significantly and the proportion working very long hours has risen dramatically. In the late 1970s, most full-time workers (about two-thirds) still worked normal hours, that is, from 35 to 40 hours per week. By the late 1990s, this group were in the minority: less than half of the full-time workers were doing normal hours; the majority were now working extended hours. The proportion of full-timers working very long hours (more than 48 per week) nearly doubled over this time period, jumping from 19 per cent of all full-timers to 32 per cent. Figure 1.4 suggests that the turning point—the period when a new era of long hours got under way—was the end of the 1981 recession. As the economy moved into



As the economy moved into growth a new way of working emerged. The classical wage-earner model now accounts for a dwindling proportion of the labour market.

Figure 1.2: Incidence of low-paid female workers within industries, 1981 and 1993



Source: 1981 Census Household sample file; 1993 ABS *Survey of Training and Education*.

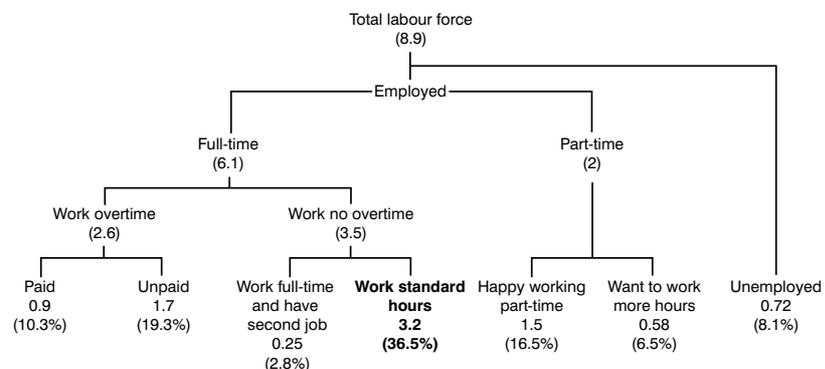
Note: Low-paid defined as two-thirds median earnings. All calculations are done with hourly rates of pay. In 1993, the data item used is usual weekly earnings. In 1981, the data item is annual income. There is reasonable comparability between the two years because among low-paid workers, almost all of their income comes from wages (and in 1981, government transfer payments for the working poor were negligible).

Note: Population is all adult employees earning above \$1 per hour (1981) and \$2 per hour (1993).

growth, a new way of working emerged. In short, as a matter of reality, the classical wage-earner model has accounted for a dwindling proportion of the labour market since the late 1960s. In addition, it no longer represents the preferred model of work for growing numbers of workers, especially women.

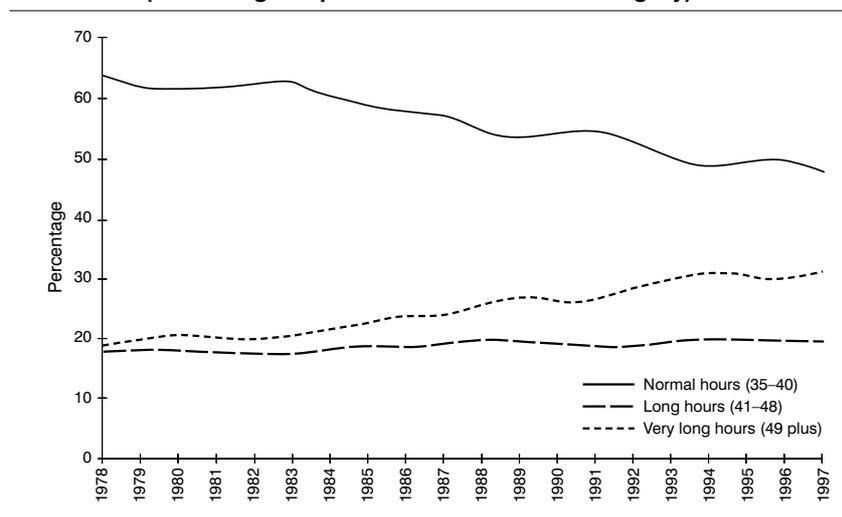
However, the divergence of the labour market reality from the precepts of the classical wage-earner model did not merely represent an 'old policy framework' not keeping up with 'modern times.' The changes also reflected developments within the world economy and Australia's place within it. Long-term trends in profitability and the country's role as a provider of raw materials raised serious challenges to the continued viability of the 'new protection settlement' and its implicit 'wage-earner

Figure 1.3: The distribution of working time, Australia, 1995 (millions)



Source: J Buchanan and S Bearfield, *Reforming Working Time: Alternatives to Unemployment, Casualisation and Excessive Hours*, Brotherhood of St Laurence, Melbourne, 1997, p. 9.

**Figure 1.4: Hours worked for full-time workers, Australia 1978 to 1997
(Percentage of persons in each hours category)**



Source: ABS, *Labour Force Surveys*, August surveys for 1978 to 1997. (cat. no. 6203.0)

Within the Australian economy there has been a shift away from a growth path based on steadily declining levels of market-based inequality to one based on deepening levels of inequality.

model' of work. From 1945 to 1975 Australia ran tiny current account deficits. From 1976, however, current account deficits ballooned. By the 1990s the current deficit hovered around 4 per cent of GDP per annum. On occasions it rose as high as 6 per cent. The end result of this has been the steady accumulation of foreign debt, currently running at around 40 per cent of GDP.¹²

The emergence of such economic instability cannot simply be attributed to developments in the external sector. Within the Australian economy there has been a shift away from a growth path based on steadily declining levels of market-based inequality to one based on deepening levels of inequality. The dynamics behind this development appear to be similar to those identified by researchers such as Julie Froud and her colleagues as being at work in the UK and other English language countries, namely the emergence of economic trajectories of accumulation based on inequality.¹³ As these researchers explain:

High incomes stimulate more tertiary services, which in turn spreads low wage employment. Household services, such as child minding and cleaning for the money rich and time poor, become increasingly commodified. This reinforces the effects of corporate outsourcing which is being driven by cost recovery strategies.

At the other pole, low wages have an impact on the composition of demand. For example, in the UK, private demand for new cars is actually declining and 40 per cent of cars are now more than 9 years old.

Froud and her colleagues also identified investment as responsible for intensifying inequality and unstable labour demand. This occurs because 'shareholder value' is the dominant criterion guiding saving and investment. The pursuit of shareholder value causes endless restructures and cost shifting exercises which adversely affects the workforce. These manifest themselves in the labour market in a variety of ways. First, significant numbers of full-time jobs are eradicated, especially in larger firms. Second, as we have noted, increasing numbers of jobs are of a 'non-standard' nature in which employers engage labour without the obligations that have traditionally



Increasing numbers of jobs are of a 'non-standard' nature in which employers engage labour without the obligations that have traditionally been associated with hiring workers.

been associated with hiring workers. Far from solving the problem, the spread of share ownership and of privately based superannuation actually destabilises the situation further. As Froud and her colleagues put it:

what we have is a Keynesian paradox about the unequal society where the pursuit of individual security through investment in the capital market spreads collective insecurity through labour market redundancy and re-employment which is part of restructuring.

The implications for the labour market of the short-term maximisation of shareholder value have recently been identified in a number of studies examining the rise and implications of non-standard employment in Australia.¹⁴

The emergence of a new settlement at work?

It is one of the great ironies of recent Australian labour market experience that impressive labour market outcomes were associated with the period of high corporatism and Keynesian reflationary policies in contrast to the remarkably unimpressive outcomes associated with their abandonment. The greatest achievement of the early Labor years in the 1980s was strong employment growth. In the mid- to late 1980s this was the strongest in the OECD. Indeed, in 1989 unemployment fell below 6 per cent.

However, after a balance of payments crisis in 1984/85, the thrust of policy began to shift from economic regeneration based on an augmented Keynesian position to an austerity model based on 'fiscal consolidation', free trade and microeconomic reform. In the context of this policy mix, labour-related issues received increasing government attention as one of the few areas where the federal Government felt able to launch new initiatives to respond to the pressures associated with the increased internationalisation of the economy. The initial impetus for these reforms was the promotion of a high-skill, high-wage economy. This concern was quickly displaced, however, by a preoccupation with increasing 'labour market flexibility' through deregulation to enhance international competitiveness. Two areas in particular received special attention.

The first concerned wages and industrial relations policy. Between 1987 and 1991 this shifted from being based on a centralised approach of nationally co-ordinated wage bargaining to a system of enterprise by enterprise negotiation. This proposal was initially promoted by neo-liberals and especially by the Business Council of Australia. It was soon enthusiastically embraced by the leadership of the Australian Council of Trade Unions. By 1993 a newly re-elected Labor Government actively promoted non-union bargaining, an arrangement that had been made unlawful fifty years earlier. As a result, workers' earnings became much more sensitive to enterprise-level conditions.¹⁵

Allied to these industrial relations changes were reforms to skill formation policy. Between 1983 and 1985 most labour market policy innovation was devoted to direct public sector job creation. From 1985 onwards, however, employability became the key concern and considerable attention was given to the issue of skill formation reform. Initially much of this activity was directed at breaking the domination of the skilled trades in the vocational training system, the aim being to make vocational education more broadly available throughout the workforce. A shift to competency-based training was the hallmark of this approach.

This initiative subsequently evolved into the push to have an ‘employer driven’ training system based on the creation of a national ‘training market’.¹⁶

Given the rhetoric surrounding the subject, developments in skill formation have been particularly disappointing. Considerable attention has been devoted to ‘modernising’ the training system in recent years. The rhetoric of policy in this area has focused on the need to upgrade the skills of the workforce to enhance both workers’ employability and the competitiveness of the economy at large. However, arguably the most significant ‘training outcome’ in the 1990s has been the decline in employer involvement in and expenditure on training. This is clearly evident in Tables 1.2 and 1.3.

Table 1.2 shows trends in apprentice numbers between 1990 and 1995. Over this period the number of apprentices fell by roughly a quarter. This was widely portrayed as a crisis in the apprenticeship system and a failure of traditional models of trades training. Disaggregating the trend by employer size reveals, however, that most of the decline in apprenticeship numbers occurred among large workplaces, especially in the public sector. Whereas these workplaces accounted for 28.5 per cent of apprentices in 1990, this had fallen to 13.3 per cent in 1995.

Table 1.2: Percentage of apprentices in training by workplace size 1990, 1993 and 1995 (derived estimates)

Year	Workplace size		Total apprentices in training
	< 99 employees (%)	100+ employees (%)	
1990	71.5	28.5	160 989
1993	82.3	17.7	122 673
1995	86.7	13.3	121 219

Sources: *Australian Workplace Industrial Relations Survey*, 1990, 1995, Australian Bureau of Statistics, *Survey of Training and Education (STE)*, Commonwealth and State Apprenticeship Committee (Costac) and National Centre for Vocational Education Research (NCVER) Statistics.

The policy preoccupation with employees’ employability resulted in neglect of concern about employer training practices. Data on trends in these over the same period show that the decline in apprenticeship training was not offset by a corresponding rise in employer training effort. Average training hours per employee per year fell from 5.92 in 1990 to 4.91 in 1996. The slight increase in training expenditure as a proportion of wages and salaries in 1993 is best explained by a short-lived statutory obligation on employers to spend at least 1.5 per cent of payroll on structured training. After intense lobbying by employer bodies this legislation was suspended in 1993. Training expenditure then dropped to pre-legislation levels.¹⁷ Overall, while policy focused on the need to increase workers’ skills, employers steadily reduced their commitment to achieving this outcome.

With the reconfiguring of key labour market outcomes, such as wages and hours of work, and rising levels of inequality, there has been a redefinition of ‘standard work’ both at the top and bottom of the labour market. At the top is a new standard of rising hours of work along with rising incomes. At the bottom of the labour market there is a new standard of ‘churning’ between different labour market

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Table 1.3: Training provided by employers 1990, 1993 and 1996

	1990	1993	1996
Hours per employee	5.9	5.6	4.9
Employers providing training (%)	24.4	22.6	17.8
Total training expenditure (% of W&S)	2.6	2.9	2.5

Source: ABS, Employer Training Expenditure: July to September 1996, cat. no. 6353.0, ABS, Canberra, 1996.

Note: W&S = wages and salaries.

states. And common to all is a rise in the intensity in the pace of work and apparently chronic job enlargement.

The most vulnerable workers in the labour market today include the unemployed as well as the large numbers of low-paid workers in employment. These are the workers most likely to suffer labour market churning: to move between a succession of short-term low-paying jobs, to move in and out of employment, or to move in and out of the labour market. At any one point in time, this pattern is disguised by static taxonomies. Longitudinal data reveals this flux. Table 1.4 demonstrates how we can view the labour market in two very different ways. The static view produces one set of estimates, the dynamic view produces estimates of a much greater magnitude. While technically they are not measuring the same thing, nor referencing the same population, both accounts nevertheless aim to assess how the labour market works. The dynamic account is more informative—and probably more accurate—because it highlights the interconnections between employment and unemployment.

Table 1.4: Comparison between static and dynamic accounts of the labour market, Australia, mid-1990s

Static account Category	%	Dynamic account Category	%
Unemployment rate (per cent of labour force)	9	Looking for work during the year (per cent of those in working age population)	23
Incidence of long-term unemployment (per cent of unemployed)	33	Job search periods lasting more than a year (per cent of all jobseekers)	46
Marginally attached to the labour force (per cent of labour force)	8	Period of absence from the labour market (per cent of those in working age population)	27
Casualisation rate (per cent of employees)	25	Working in jobs that were not permanent (per cent of all wage and salary paying jobs)	39

Source: Static from ABS *Labour Force Surveys* (except for marginally attached which comes from unpublished ABS Survey of Training and Education 1993). Dynamic from ABS, *Australia's Employment and Unemployment Patterns 1994–1996*, cat. no. 6286.0, 1997 p. 4.

Once we take this more extensive view of the labour market into account, we find that disadvantage does not neatly divide between the (static) employed and the (static) unemployed. Rather, disadvantage percolates across the entire labour force. It clings most tenaciously to the long-term unemployed, it dogs the footsteps of the precariously employed, and it furrows the brow of the mature-age under-employed. It is certainly true that the long-term unemployed come closest to the static picture of the unemployed—and they most fully embody labour market

disadvantage. Yet they are often not contenders in that race for jobs which falling wages are supposed to engender. The last two decades in Australia have shown that most new job opportunities go to new labour market entrants and to the more recently unemployed. The outcome of increased 'labour market flexibility' is not a shift from one compartment (unemployment) to another (employment), but rather a more rapid expansion in low-paid precarious employment. A new standard of precariousness appears to be affecting a growing proportion of Australian workers.

Table 1.5: Managers' hours of work by whether they are happy or want to work less

Hours worked per week	Percentage of managers		
	Happy with hours	Want fewer hours	Total working these hours
35-40	15	2	17
41-48	25	9	34
49+	25	25	50
Total	65	35	100

Source: Unpublished AWIRS 1995 data as reported in ACIRRT, *Australia at Work: Just Managing*, 1999, p. 116.

The outcome of increased labour market flexibility is not a shift from unemployment to employment, but a rapid expansion of low-paid precarious employment.

At the other end of the labour market, standards of quite a different nature are taking shape. Here the emerging issue is extended hours of work and work intensification. The data on growing hours among full-timers was considered earlier. Aggregate data hides differences between occupations. The problem of extended hours is most acute amongst managerial employees.¹⁸ This is also the group which is most dissatisfied with its hours of work. As Table 1.5 shows, dissatisfaction with hours of work rises as hours spent on the job increase. Hence, while new standards appear to be emerging on the question of working time there is evidence that the new arrangements are not necessarily desired by a significant proportion of the people concerned.

The end result of all these developments appears to be rising levels of work intensification and job enlargement. In the 1995 Australian Workplace Industrial Relations Survey 19,000 employees were asked about their experiences of work intensification over the preceding twelve months. Some 58 per cent responded that their work effort was higher at the end of the twelve months than it had been at the beginning of the period, and 49 per cent said that stress on the job had increased. Table 1.6 summarises these responses and shows just how prevalent work intensification became in the mid-1990s.

These trends have been corroborated by more recent material from the Australian Bureau of Statistics on job enlargement. Table 1.7 reports on the incidence of particular types of changes experienced by employees who had worked with their current employer for one year or more. It revealed that over a third were expected to exercise more responsibility at work (38 per cent) and take on new, different or extra duties (36 per cent). Over the corresponding period, however, only 7 per cent had received a promotion.

It is clear that the dynamics involve far more than 'wages', 'jobs' and 'casualisation'. Rather, what we find are important connections between market competition, wages,



job quality and their subsequent feedback effects on the level and composition of labour demand.

Table 1.6: Employee views of changes related to work intensification over 12 months, Australia 1995

Employee view of change	Percentage of employees
Work effort	
higher	58
lower	4
no change	36
Amount of stress on the job	
higher	49
lower	7
no change	42
Pace of the job	
higher	46
lower	4
no change	49
Satisfaction with work/family balance	
higher	14
lower	26
no change	58
Satisfaction with job	
higher	30
lower	29
no change	40

Source: Unpublished data from AWIRS 1995, Employee Survey.
 Note: Population is persons in workplaces with more than 20 employees.

While new standards appear to be emerging for working time, there is evidence that the new arrangements are not necessarily desired by many of the people concerned.

Table 1.7: Changes experienced by workers in their jobs over the 12 months to November 1998

Type of change	Percentage of employees
More responsibility	38
New, different or extra duties	36
Change in hours	17
Change location	9
Transfer	8
Promotion	7
No change at all	5

Source: ABS, *Career Experience*, cat. no. 6254.0, November 1998.
 Note: Population is employees who had worked with their current employer for one year or more.

After the classical wage-earner

Clearly the challenge for policy is to build on the best of the classical wage-earner model and escape its limitations and those of more recent policy prescriptions. How is this to be done? When conceiving of alternatives it is important to keep labour market issues in perspective. One of the major problems with the policy debates about labour related issues is that too much is expected of reforms concerning education, training and income support. As capital and product markets have been deregulated high expectations have been raised about the importance of such

reforms for international competitiveness. In the last phase of the ALP–ACTU Accord, both parties spoke of a ‘workplace change led’ recovery. The tacit assumption being that all other policy settings were in place—the only remaining challenge was to identify and diffuse best ‘partnership’ practice to enterprise level and get people off the dole with ‘jobs compacts’.¹⁹

The preoccupation with labour related issues as the pivotal policy area for competitive success is misleading and unhelpful. Labour is only one factor of production. To put the matter starkly: the best trained, most flexible and cheapest workforce in the world cannot make up for inadequacies in the operation of capital markets and policies and institutions of industry development. At best industrial relations and labour related policies can complement a wider policy mix. They can never work effectively in the context of a deficient policy framework. This is especially the case given the dynamics of accumulation based on inequality noted earlier. Equally, policies on macroeconomic management, industry development and capital markets will not (on their own) directly address problems such as non-standard forms of work, changing business structures and inadequate training arrangements.

This is not the place to outline all the elements of such a program. We have outlined the potential sources for such a program elsewhere.²⁰ In place of the classical wage-earner model we propose a more encompassing ‘working life model’. At the core of this model is a different conception of the essential elements of a system of employment. Workers should be defined more broadly as people who work for multiple employers over the course of key phases of their life cycle, within the context of integrated industrial and social security rights provided by the state.

These ideas are relevant for most OECD countries. If workers are to have a real choice in balancing work and other commitments and interests, and if they are to achieve more security as they move through different stages of their life, then they need supportive structures to minimise any losses associated with exercising such choices. For example, workers going part-time to help with parenting, or working ‘short-time’ because of reduced demand for output, face a number of disadvantages. These include immediate financial loss (fewer hours worked mean lower earnings); reductions in employment-based entitlements (such as superannuation and long service leave); and serious disruptions to career advancement (because many ‘career’ jobs are not available on a part-time basis). These are best understood as symptoms of labour market failure, that is, as badly managed transitions.

In summary, innovation requires seeing social policy not just as alleviating ‘poverty’, but as embracing questions of social inclusion. And social inclusion means working in jobs based on proper social standards when it comes to wages and hours, not working in low-quality jobs which marginal employers are prepared to create because of government subsidies (such as tax credits schemes). This poses the question in a more constructive way: how do we raise social and community standards, not how do we cope with their demise?

Clearly the precepts of the classical wage-earner model suffer major limitations as a guide to policy in the current situation. Equally, the preoccupation of much current policy with supply-side issues means that the key causes of most labour market problems—institutional shareholders, their management agents and the arrangements they devise that restructure work—are systematically ignored. In getting

In place of the classical wage-earner model we propose a more encompassing ‘working life model’, with a different conception of the elements of employment.



The preoccupation of much current policy with supply-side issues means that the key causes of most labour market problems are ignored.

beyond the limitations of both the classical wage-earner and free market approaches to regulating work, more encompassing categories of labour, jobs and rights concerning working life are needed. Ironically, practice concerning such issues as the regulation of contractors and the emergence of progressive labour hire arrangements appears to be running ahead of policy on some of these issues.²¹ The challenge is to build on practical, progressive gains in leading sectors to establish new standards for new realities. In this context it is vital that policy debate grapples with the challenge of how best to manage the rights of the citizen at work and beyond, and over the entire life course. Unless the debate engages with this challenge, policy and analysis about work will be distracted by counter-productive neo-liberal solutions or nostalgic attempts to revive an approach to labour market regulation from an earlier era.

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2 Social Reproduction: The Need for a New Social Contract

Peter McDonald

Since the 1980s, the industrialised countries of the world have restructured their economies in line with a philosophy that the free operation of the market is the most efficient and effective form of economic organisation. Regulations and restrictions have been reduced so that capital can flow easily in the direction that maximises business efficiency and profit. The theory is that profitable businesses mean improvements in employment and wages and, hence, in economic well-being. The characteristics of this new economic regime are small government and low taxation, free flow of capital across international boundaries, free trade, freedom for employers and workers to determine wages and working conditions, and curtailment of government-funded social welfare. In distributional terms, the system rewards innovation and hard work and, hence, provides incentives for both. The individual worker has the freedom to sell his or her skills to the highest bidder. Government, both national and international, takes on a new role as facilitator and regulator of this system.

In the 1990s, the system has produced lower levels of unemployment in most industrialised countries and, on average, greater prosperity. However, there are questions about its distributional outcomes. The system is unforgiving of its casualties whether they be individuals, companies or nations. Companies and nations are penalised for failure through the out-flow of capital at short notice. Individuals are penalised for failure by loss of their income source. The rewards may be greater under this system than under the former system of protection, but the risks are also greater. The unemployed come to be dominated by the long-term unemployed, the resource-poor by the homeless. The casualties of the system become a problem for the system only in so far as they disrupt the free operation of the market. The archetypal free society, the United States, deals with this potential risk to enterprise by jailing 2 million of its citizens and, in many cities, by making homelessness illegal. Most other countries deal with the casualties of the system through their welfare systems, but these are increasingly seen as being under threat. The principal role of welfare states has been to provide a safety net so that the risks of falling off the market's high wire are greatly reduced. With the prospect that the safety net may be removed, people adopt risk-averse behaviours.

The market approach deals with individuals as inputs to the system of production. Consequently, in order to protect themselves from risk, individuals must maximise their utility to the market. This means that they need to focus upon the acquisition of saleable skills, work experience and a marketable reputation. At the same time, they need to accumulate savings or wealth as a personal safety net. They also need to maintain flexibility of time and place so that they can react to opportunities as they arise. The risk-averse individual in a world that rewards market production is unwise to devote time or money to social reproduction. Social reproduction involves altruism, that is, time and money devoted to others or to the society at large. For the risk averse in a free market economy, altruism is equivalent to foolhardiness.

Family is at the heart of social reproduction. It is the place where altruism abounds. There are people and politicians who believe that the public world of the market economy and the private world of the family can be separate worlds: that an individual can be highly competitive, individualistic and risk averse in the market but then be self-sacrificing, altruistic and risk accepting within the family. The only explanation I can suggest for this logic is that these are people who still believe in the separation of roles of men and women; that market production

The principal role of welfare states has been to provide a safety net so that the risks of falling off the market's high wire are greatly reduced.



For the past twenty years, almost all industrialised countries have had rates of birth that are below the level that reproduces the population.

is a male responsibility and social reproduction is a female responsibility. Talcott Parsons argued in the 1950s that the male breadwinner model of the family is ideally suited to the modern economic world involving flexibility of time and place for the worker. A worker with a family can be flexible to the demands of market production if he has a wife at home taking care of social reproduction.

This is not the 1950s. In attitude and behaviour, we have rejected the male breadwinner model of the family. Young women today are equipped for market production at a level at least equivalent to young men and employers are very happy to employ women in the market economy. Where human capital counts, the free market will employ a skilled woman before an unskilled man, even before a man slightly less skilled than the woman. The risk-averse woman of today will ensure that she is able to support herself and, given the high probability of divorce, will be careful not to put herself at the risk of dependency upon a man. Couples recognise that dual employment provides a hedge against job loss for either one and banks reinforce this by providing mortgages on the basis of two incomes. Parents and schools encourage young women to accumulate skills that will enable them to remain attached to the labour force. As a result, there are almost no young women today who see their future lives in terms of finding a husband and never thereafter being engaged in market work. Reinstitution of the male breadwinner model of the family is not the solution to the dilemma we now face in maintaining social reproduction in combination with a free market approach to economic production.

The foundation of social reproduction is the birth, nurture and socialisation of the next generation. The failure of the social and economic system that we have developed today is most evidenced by our failure to be able to establish this foundation. For the past twenty years, almost all industrialised countries have had rates of birth that are below the level that reproduces the population. What kind of society cannot even reproduce itself? The answer is our kind of society. This should be an issue that exercises the minds of governments and firms committed to the future of market production because, in some countries, very low birth rates are already leading to falls in the absolute sizes of their labour forces. Over the next fifty years, continuation of present birth and labour force participation rates with no migration would lead to a fall in the labour supply in Japan, from 65 million to 45 million, in Germany, from 41 million to 21 million and in Italy, from 23.2 million to 11.3 million.

Why isn't the market interested in this issue? Because the market is very short term in its orientation. Financial markets are so short term in their orientation that it takes your breath away. Firms and governments become caught up in this short-term vision and, with good reason, because they are punished by the financial markets for any short-term lapse. Consequently, long-term investment tends to fall off the agenda for both firms and governments. Failure in Australia to invest in research, education and training is a symptom. When I speak to economists about labour supply in 2020, their eyes glaze over. They say that they don't have the models to estimate what labour demand will be that far out so how can they assess labour supply. For all its virtues, neo-classical economics is the science of change at the margin. Its models show the impact of change at the margin including margins of time. The neo-classical approach to fertility decision-making is to devise a model relating to the utility of the marginal child to the marginal couple. There is not much room here for attributing low fertility to the nature of social organisation. Social organisation

is exogenous, well covered by the assumption of other things being equal. The long term is in the lap of the neo-classical god, the price mechanism. We can have faith that, in good time, it will correct for whatever we need. As children become scarcer, their value to society will increase and we will pay more to those who produce them. This may be so, but if the market is reacting to a shortage of workers induced by previous low birth rates, an increase in births does not feed into the labour force for around twenty to twenty-five years.

Population policy is policy for the very long term. As an example, we are now preparing for a large increase in the aged proportion of our population, which will occur mainly between 2020 and 2040. This increase is the product of relatively high birth rates from 1950 to 1970 followed by low birth rates since 1970. Hence a policy issue derives from births 70 years and more beforehand. We can project ahead now and see that very low birth rates such as those that apply in Japan and most of Europe today will lead to age structures that are inverted pyramids. In the work done by Rebecca Kippen and myself, we refer to this form of age structure as the coffin shape, wide at the shoulders and narrow at the feet. The coffin age structure has several very undesirable characteristics. Initially, the numbers at older ages are increasing rapidly at the same time as the absolute size of the labour force is falling. This is already happening in many industrialised countries. Later, as the smaller and smaller birth cohorts move into the child-bearing ages, they produce even smaller sized cohorts of children, that is, the coffin shape has an inbuilt momentum of population decline. In sum, this is an uncomfortable situation for a population to be in. There is no sign at all that the market price mechanism is about to correct for this situation in Japan or Europe. Indeed, the opposite is true. The market continues to produce risk-averse workers for whom children are a considerable risk.

We are now preparing for a large increase in the aged proportion of our population, which will occur mainly between 2020 and 2040.

What kind of society cannot even reproduce itself? Our kind.

Table 2.1 provides an indication of the extent to which young Australians have been putting their lives 'on hold' while they establish themselves in the market. The trend has continued after 1996.

Table 2.1: Characteristics of women aged 25–29 years, 1986

	1986 %	1996 %
Has had at least one birth	57.9	43.6
Ever married	73.4	54.6
Owner/Purchaser	50.3	39.2
Has a university degree or diploma	15.1	25.4
Employed	53.1	64.5

Source: Australian Census 1986 and 1996

The continued delay of the first birth is also indicated by Figure 2.1, which shows the age by which the cumulated births of each birth cohort add to an average of one child per woman. You can see that Australian women today do not reach an average of one child per woman until age 30.



Finally, Figure 2.2 shows that fertility rates for women aged less than 30 are continuing to fall sharply while rises in fertility at ages 30 and over are slowing down. Births delayed in the twenties will not be made up by births after the age of 30. Australian fertility is very definitely still on the way down.

In their early twenties, Australians, on average, express a preference to have more than two children. By the time they are in their early thirties, their achieved fertility is considerably below an average of two children. In the intervening decade in their lives they learn about the market, they learn to be risk averse, they experience a system that does not value or reward those who have children. Indeed, it very obviously penalises those who have children, particularly women. Being risk averse is not just a characteristic of those with higher levels of education. Between 1986 and 1996, the fall in fertility at younger ages was greater for women without qualifications than for those with a university degree.

A new social contract is required that enables the market approach to proceed but which also provides rewards for social reproduction.

The collapse of birth rates in most industrialised countries is telling evidence of the failure of the market approach to allow social reproduction to proceed. First reactions have been to lash out at young people, especially young women. Newspapers in Japan have coined the term 'parasite singles' to describe young Japanese. Various conservative countries have called upon young women to fulfil their national duty. Such campaigns are pointless and, at best, counter-productive because attention is focused in the wrong policy direction. The issue is much more fundamental. It is not a matter of tweaking this and fiddling with that, the standard approach of Australian governments. What is required is nothing less than a new social contract that enables the market approach to proceed but which, at the same time, provides just rewards for social reproduction.

Figure 2.1: Age by which birth cohorts reached an average of one child born, 1951–1971

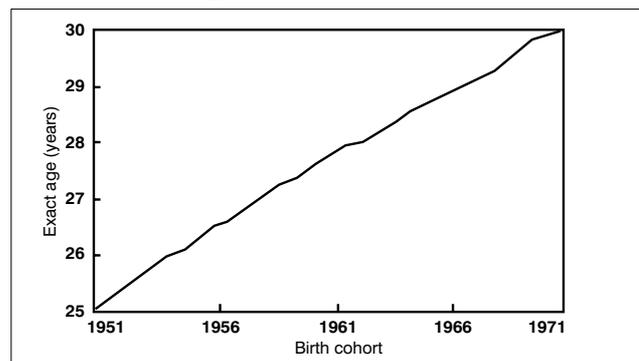
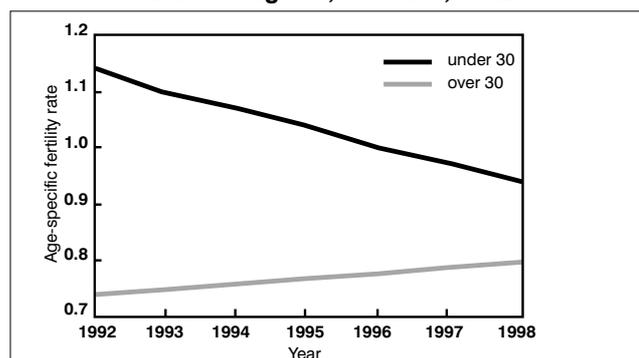


Figure 2.2: Age-specific fertility rates, under age 30 and over age 30, Australia, 1992–1998



3 Changing Families, Changing Households: Australian Housing Assistance Policy

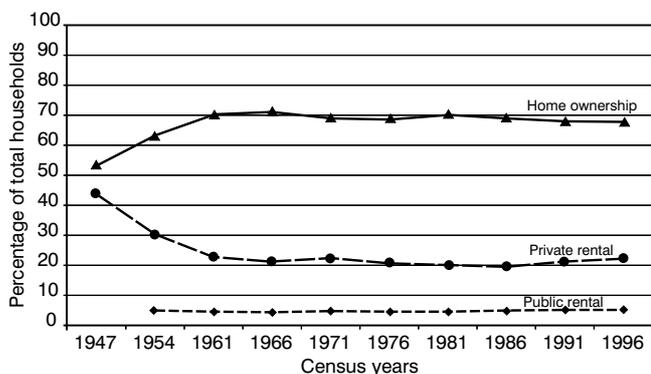
Maryann Wulff

This chapter focuses on the dramatic change that is taking place in the delivery of housing assistance to low-income Australians. This policy shift has been characterised as moving away from ‘bricks and mortar’ (that is, public housing) to the provision of income assistance to low-income renters (in the form of Rent Assistance). The switch from supply-side to demand-side subsidies has been observed in a number of countries, and is considered a more flexible and responsive means of delivery in line with today’s changing world. In many overseas countries, particularly in the United Kingdom, Europe and Scandinavia, the national housing stocks contain a large public/social rental sector and therefore have the low-cost stock to absorb the impact of change. For example, social housing makes up 42 per cent of the Netherlands’ housing stock, 38 per cent of Sweden’s, and 24 per cent of housing stock in France.¹ In contrast, public/social housing accounts for only 6 per cent of Australia’s stock. In this context, the ability of the private market to respond to increased demand is critical.

Housing systems reflect the unique features of a nation. In Australia, the outstanding characteristic of the housing system is the high rate of home ownership. Blair Badcock and Andrew Beer describe Australia as heading the ‘league table of countries with housing systems dominated by owner-occupation’.²

Figure 3.1 shows the housing tenure pattern in Australia from 1947 to 1996.

Figure 3.1: Housing tenure (percentage of occupied private dwellings) 1947–1996, Australia



Source: ABS, *Census of Population and Housing*, various years; A version of this chart appears in the 1996 issue, p. 12.

Australia’s home ownership rate rose rapidly after World War II and since about 1960 has stayed consistently at between 68 to 70 per cent of households. Private rental housing accounts for about 20 per cent of the dwelling stock. The limited role of the public sector in housing is apparent in the very low proportion of households in public rental—between 5 and 6 per cent. Some key features of each of these tenures are presented below.

Owning your own home holds a place of special significance in Australia—home ownership is frequently referred to as the ‘great Australian dream’. For most Australian households, their home is their single most valuable asset. Residential property ownership offers an opportunity to acquire wealth, and equity in the

There has been a dramatic shift in the delivery of housing assistance to low-income Australians from the provision of public housing to the provision of income assistance to low-income renters.

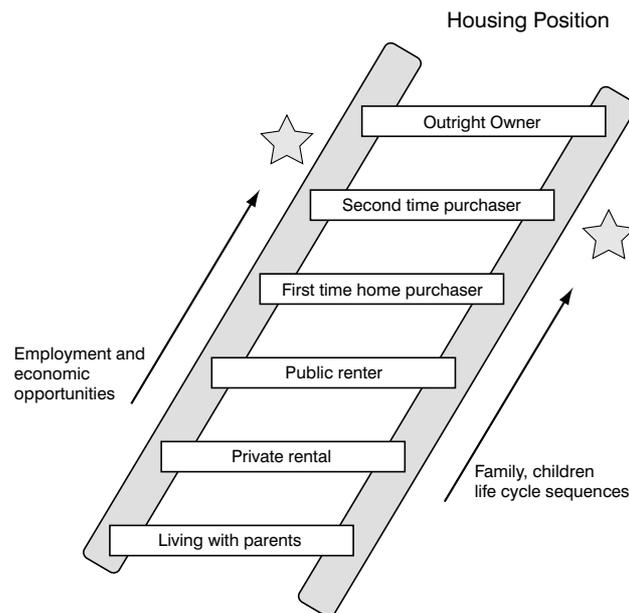


The outstanding characteristic of Australia's housing system is the high rate of home ownership.

family home accounts for 50 per cent of the total values of assets owned by the household sector.³ High home ownership rates have served as an integral part of the welfare system for the aged in that paying off the family home reduces recurrent housing costs and thereby provides financial security in retirement.

Traditionally, the achievement of owning your own home has been portrayed as a progression that occurs alongside life cycle phases from one form of tenure to another. This has been coined the housing cycle or ladder. When young people leave the (typically owned) parental home to form an independent household, they would enter the rental market, usually form a relationship, partner, have children, then purchase a home, pay off the mortgage, and finally later in life own their own home outright. The 'old social settlement' housing sequence tended to be marriage, birth of first child, and then entry into home ownership.⁴ Figure 3.2 depicts this sequence of life stages with respect to family life cycle, employment and housing.

Figure 3.2: The Australian housing career ladder (the 'old social settlement')



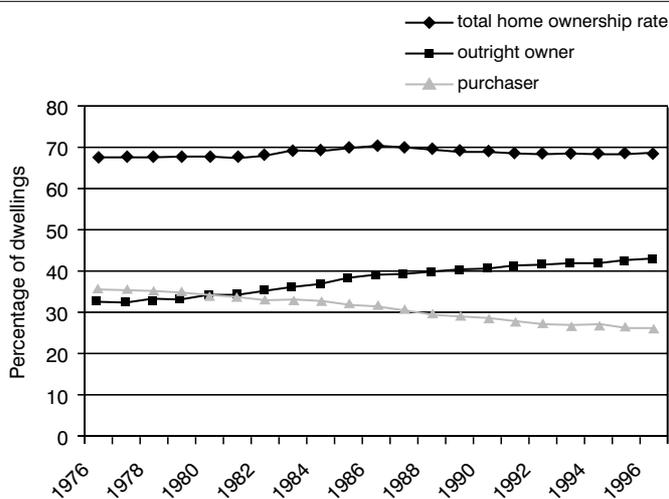
Source: Adapted from a version presented in H. Kendig, and C. Paris, with N. Anderton, *Towards Fair Shares in Australian Housing*, IYSH National Committee of Non-government Organisations, Canberra, 1987, p. 30.

In recent years, however, researchers have begun to question whether this housing model has become outdated. Winter and Stone describe today's world as being a 'risk society' in which there is increased uncertainty about 'what will come next' in life—no longer, they argue, can people presume a logical sequence of events. In a risk society, 'previous certainties of social life dissolve as, for example, partnering does not inevitably lead to marriage and marriage does not inevitably lead to the birth of children'.⁵ Based on interviews conducted by the Australian Institute of Family Studies, which asked respondents a lengthy series of retrospective questions to do with their life histories, the authors concluded that entry to home ownership 'has become increasingly disconnected from key life course events'.⁶ Today's young

Australians appear to be following a different series of events to older cohorts: typically partnering and home ownership now occur before marriage and having children. This suggests that entry to home ownership occurs at a younger age, although fewer are entering overall.

Figure 3.3 shows this changing pattern of ownership. While the total home ownership rate between 1976 and 1996 appears to remain at a stable 70 per cent, disaggregating this rate into its two components (outright ownership and purchase) reveals that outright ownership, reflected in the ageing of the population since

Figure 3.3: Home ownership trends, Australia, 1975–1996



Source: ABS, *Housing Australia: A Statistical Overview*, cat. no. 1320.0, 1996, Table 2.7; ABS, *Census of Population and Housing, 1996*; ABS, *Household Expenditure Surveys, 1975, 1984, 1994*, weighted by NATSEM adjusted weights. Presented in J. Yates, *Trends in Home Ownership*, New South Wales Department of Urban Affairs and Planning, Sydney, 1998, Table 1.1.

1976, is what is keeping the total rate stable. The purchaser rate is steadily declining. Judith Yates has examined this issue in some detail and shown that, standardised for age, the overall home ownership rate between 1975 and 1994 still shows a decline of 2 percentage points. Moreover, the most marked decline has been experienced by the 30- to 34-year-old age group. This is the case both for couples with children and for younger high-income couples—for some, the reason may be the documented decline in affordability of home purchase. These households may have greater demands on their income and/or their labour market situation may be such that they are uncertain about committing to a long-term mortgage.⁷

What is clear is that new demands are being placed on the private rental market (which accounts for 20 per cent of the nation’s housing stock). The private rental sector is assuming a new importance for households below retirement age.⁸ Once perceived as a stepping stone into home ownership or a transitional tenure, today’s households face the prospect of renting longer (for some by choice; for others, by necessity). In trying to understand the potential role that private rental can play in a public policy sense, it is important to recognise the notable structure of this tenure sector. In contrast to other countries where large institutional investors own and manage the private rental stock, Australia is a country of individual landlords. Most rental investors own one property only—there is virtually no specific purpose-

While the total home ownership rate between 1976 and 1996 appears stable, there has been a steady decline in the purchaser rate.



While public housing was established initially as an alternative to home ownership for lower income working households, it has been transformed to welfare housing for the lowest income households.

built rental stock.⁹ In other words, owner-occupied and rental dwellings are interchangeable and a dwelling that is rented out one year may be sold to home buyers the next.

Public rental housing was Australia's first significant direct housing assistance policy. The public housing stock is predominantly owned and managed by State Housing Authorities, but funded by the Commonwealth Government under a series of agreements known as Commonwealth State Housing Agreements. CSHAs are negotiated on average every five years and they provide an explicit statement of housing goals. The present CSHA was agreed in July 1999 and will be reviewed again beginning in August 2001. There is some discussion that this may be Australia's last CSHA, which would represent the end of housing assistance, as Australians have known it.¹⁰ Rents are set according to income up to a ceiling (25 per cent of income). While public housing was established initially as an alternative to home ownership for lower income working households, over time it has been transformed to welfare housing for the lowest income households.

Social changes affecting housing demand

Australian households have undergone dramatic changes in size and composition, with direct implications for housing demand. Key changes include:

- the trend for young people to stay longer in the family home and defer the formation of an independent household;
- marriage and child bearing are also being postponed;
- an increase in the divorce rate;
- an increase in the number of single parent families;
- growth in two-income families, evidenced by an increase in married women's workforce participation;
- growth in the number of one-person households;
- an ageing population.¹¹

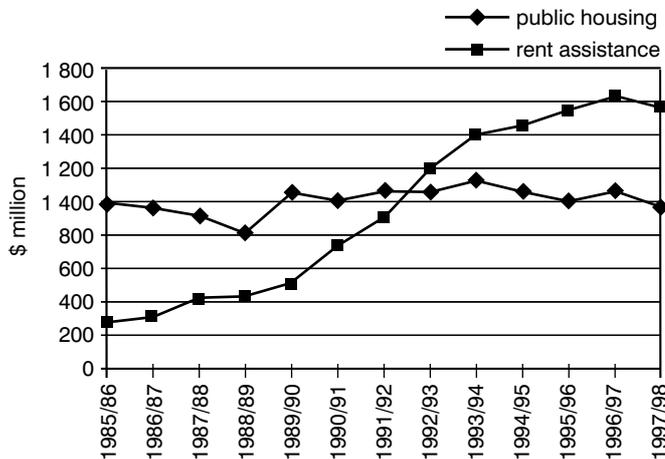
The overall effect of these multiple trends on the housing market is a decrease in the number of family households, an increase in the number of non-family households and a trend towards smaller households.

The processes of economic and labour market restructuring also influence the housing market by altering the ability of individuals to join together and form households. People require employment and a secure income stream before they can consider forming their own households, or making the long-term commitment to paying off a mortgage on a home. Thus, the fact that many households face persistent economic insecurity directly affects housing demand. The nature of jobs available has also altered substantially; the number of full-time employment positions has decreased at the same time that the amount of casual and part-time work has increased.¹² The trend towards labour market flexibility has been associated with increased numbers and proportions of the working-age population in receipt of social security assistance.

In addition to socio-demographic and economic change, Australia has experienced a fundamental shift in the ideology of the welfare state. Discussions about social policy now revolve around ideas of self-reliance, and private (not public) provision. Much of this is surrounded by the idea that this shift offers greater choice to people.

Discussions of housing policy have not been immune to this shift. The National Housing Strategy (NHS) of 1991/92 pointed to the large numbers of renters who were unable to access public housing. The Strategy also questioned the lack of locational choice available to public renters, since much of the housing was located on large estates. Increased rent assistance for low-income households seemed to hold out the promise of greater housing choice and flexibility for households and sat well with the ideological commitment to and belief in the efficiency of markets.¹³

Figure 3.4: Commonwealth housing assistance outlays, 1985–1998



Source: Unpublished figures provided by the Commonwealth Department of Family and Community Services.

Figure 3.4 portrays the change that has taken place in housing assistance. Since the late 1980s successive Commonwealth governments have expended more dollars on income support for private renters (known as Rent Assistance) than on the long-established government public housing system. This represents a major funding switch from supply-side subsidies and provision of public housing to demand-side subsidies through rent assistance.

Rent Assistance is an income supplement attached to social security payments. People renting in the private housing market are eligible for this payment, which averages about \$28 per week and has a maximum amount of \$50 per week. The payment amount varies according to the rent paid and to family type. Because Rent Assistance is a supplement to a low-income person's social security payment, it is administered by the Commonwealth department responsible for social security, and not by a housing department.

In policy terms, this means that while the public housing program has a very clear statement of housing-related performance indicators, the assessment of the Rent Assistance program is almost entirely of an administrative nature. Each CSHA sets out a statement of housing objectives that relate directly to housing: affordability, housing need, quality, condition and so forth.

Since the late 1980s Commonwealth governments have expended more dollars on income support for private renters than on the public housing system.



Rent Assistance operates as income support and does not have an explicit affordability goal.

In contrast, the objectives of Rent Assistance are less explicit, at least as they relate to housing outcome. Rent Assistance operates as income support and does not have an explicit affordability goal. Apart from threshold rents set for eligibility requirements and the fact that Rent Assistance is an add-on to a social security payment, Rent Assistance is not related to the proportion of income that a family pays in rent. The objective of Rent Assistance is 'to provide income support recipients and low-income families in the private rental market with additional financial assistance in recognition of the housing costs they face'.¹⁴

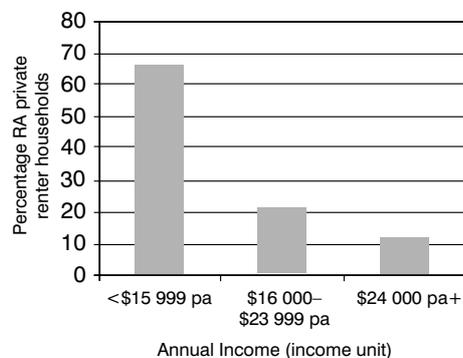
The Productivity Commission states that 'it is inappropriate to compare the performance indicators for Commonwealth Rent Assistance with those for other programs' because of the different objectives and methods of delivery,¹⁵ although the most recent report contains performance indicators for the first time (and on a one-off basis).¹⁶ The indicators included the proportion of income spent on rent (before and after accounting for Rent Assistance); the geographic spread of recipients; the outcome of appeals to the Social Security Appeals Tribunal; and administrative efficiency.

The research reported here examines Rent Assistance from a different, but equally significant angle—specifically, how do Rent Assistance recipients fare in the private rental market and how did the market respond to the increased Rent Assistance and other market pressures flowing from social and economic change? The following figures are drawn from two major studies undertaken for the Commonwealth, one on the private rental market¹⁷ and the other specifically on Rent Assistance recipients.¹⁸

About 78 per cent of people receiving Rent Assistance rent in the private rental market, that is from a non-resident landlord or an estate agent. This figure excludes recipients who rent from their parents or other relatives in the same household or who board or lodge with a family.¹⁹

Not surprisingly, given that Rent Assistance is limited to social security recipients, the majority of recipients are in the lowest income groups. This raises the question of the availability of affordable rental stock for these households.

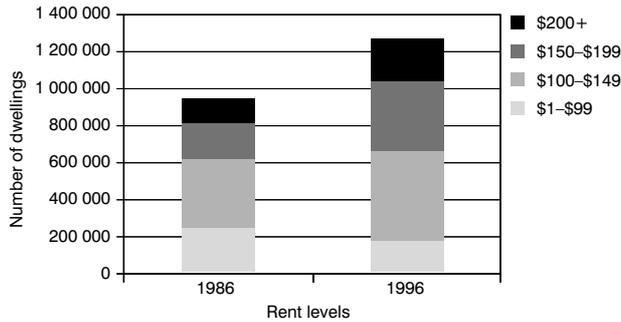
Figure 3.5: Annual income (income unit) of Rent Assistance recipients renting in the private rental market



Source: FACS National Survey of Rent Assistance Recipients, 1998, unit record file, Rent Assistance recipients in households in private rental market.

Figure 3.6 reveals that between 1986 and 1996, the total private rental stock increased by 34 per cent from under 1 million units to 1.25 million. This growth compares with a 23 per cent increase in total number of households.

Figure 3.6: Size of stock by rent level (absolute numbers)

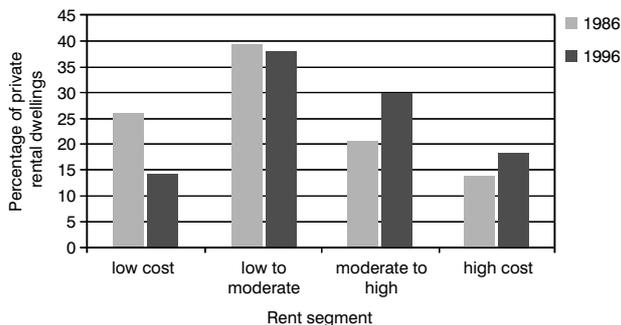


Source: ABS, *Census of Population and Dwellings, Special Request Matrix*, 1986 and 1996.
 Note: Rent levels are given in \$1996.

This figure also points to what is happening underneath the total growth in stock. The composition of the stock by rent level has changed considerably. The number of low-cost rental dwellings (defined as less than \$100 per week in 1996 dollars) declined from approximately 250 000 in 1986 to 177 000 in 1996—in other words, a 28 per cent reduction.

Looked at in another way, whereas the low-cost stock comprised 26 per cent of the total private rental stock in 1986; this share fell to 14 per cent by 1996. As depicted in Figure 3.7, the growth in the private rental stock has been at the top end of the market.

Figure 3.7: Changes in rent distribution of private stock, 1986 and 1996, Australia



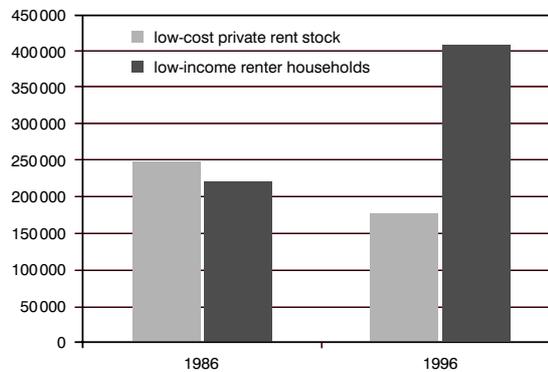
Source: ABS, *Census of Population and Dwellings, Special Request Matrix*, 1986 and 1996.

It appears, therefore, that the increased reliance on the private rental market has been associated with a loss of low-cost stock, to the disadvantage of low-income renters. This has occurred at a time when the numbers of low-income renters increased by over 80 per cent.

The number of low cost rental dwellings declined by 28 per cent from 1986 to 1996.



Figure 3.8: Low-cost private rent stock compared with low-income renter households (absolute numbers), 1986 and 1996, Australia

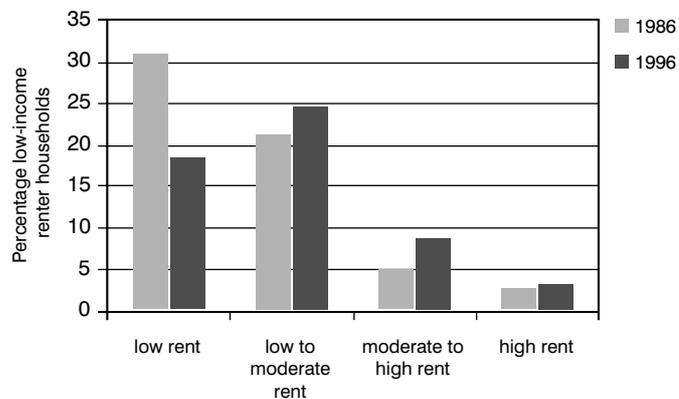


Source: ABS, *Census of Population and Dwellings, Special Request Matrix*, 1986 and 1996.

The research does not produce any evidence that the private rental sector has the capacity to meet increased demand for low-cost housing.

In 1986, in absolute numbers, the size of the low-cost stock surpassed the number of low-income renter households (that is presuming, of course, that low-cost stock is available to low-income households, which is not necessarily the case).²⁰ The situation had altered dramatically by 1996, with the size of the low-cost stock diminished yet the demand from low-income renter households escalating.

Figure 3.9: Rent paid by low-income private renter households, 1986 and 1996, Australia



Source: ABS, *Census of Population and Dwellings, Special Request Matrix*, 1986 and 1996.
 Note: Low household income is defined as < \$15 000 per annum in 1996.

In 1986, just over 30 per cent of low-income households accessed dwellings that rented for under \$100 per week (representing 30 per cent or less of their income). By 1996, despite the much greater demand, the percentage of low-income households accessing such dwellings had dropped to less than 20 per cent.

Housing policy for the future

The research into Australia's private rental market does not produce any evidence that the private rental sector has the capacity to meet increased demand for low-cost housing. It is not surprising that the private rental market does not allocate efficiently, and that Rent Assistance does not make affordable the housing that is available.

If the Rent Assistance program operates without any public sector intervention to assure supply, it is not only likely to be costly, but it is unlikely to achieve any housing goals. It is timely to reconsider the role of Rent Assistance within a housing policy perspective. This might, for example, imply setting a series of housing objectives or reviewing regulations on the use of Rent Assistance to see if there is a way to tie it to affordable housing provision.

In designing policies for any 'new social settlement', can we leave the housing of low-income Australians to the unregulated private housing market?

If the Rent Assistance program operates without public sector intervention, it is unlikely to achieve any housing goals.

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4 The Henderson Report: Still a Blueprint for Social Policy?

Ian Manning

It seems strange to argue that the Henderson report, written as it was by a man who presented himself as an economic pragmatist, may have underlying philosophical strengths that make it worth revisiting. However, there is a revealing story from the Poverty Inquiry which illustrates the nature of Henderson's pragmatism. Not long after the Inquiry had started, a deputation of luminaries from the welfare sector waited on Henderson and explained their deep concerns. If the Inquiry was not based securely on explicit and universal values, a great opportunity would be wasted. And, by the way, did he have any personal values which he considered relevant to the Inquiry? Henderson pondered for a while, then said, tentatively and perhaps a little mischievously, 'Well, I believe in original sin'. As the Inquiry progressed he gained confidence in this belief, and when presented with suggestions which he thought would make impossible demands on people's honesty or goodwill, would roar: 'But I believe in original sin'.

Henderson's value system is not a system that is in the interests of the current, largely financial, elite.

An awareness of original sin in the sense intended by Henderson:

- makes people wary of tight analytical systems, which might be intellectually beautiful, but are so easily subverted to individual and class interests (Henderson regarded himself as a confused economist, seeing something of value in a wide range of competing economic models);
- limits expectations as to the honesty and good behaviour of individuals (but not to the point of despondency; sin is pervasive, not overwhelming);
- results in a refusal to commit to any closed ideology, hence the pragmatism which was so offensive to those who thought they knew the answers;
- leads to an emphasis on knowledge—in Henderson's case both on statistics (by far the greatest cost of the Poverty Inquiry was the first national survey of incomes) and on utilisation of as many sources of knowledge as possible, including the voices of the poor (a very difficult source to access, since poverty is almost defined by lack of voice, and the advocates of the poor can be quite blinkered in their advocacy).

It must be added that original sin was not the sole value foundation of the Poverty Inquiry, though given the nature of an investigation into the least satisfactory aspects of society it was bound to be prominent. It was balanced by an almost impossibly idealistic belief in original virtue, particularly the Australian capacity for informed debate; the capacity of informed Australian governments to act in the public good; the capacity of individual Australians for action directed towards the good of their immediate communities and the capacity of Australian bureaucracies, operating under suitably balanced legislation, to act in the common good and for the good of disadvantaged people. Yet original virtue was not the only counterpoint to original sin; virtuous systems should be designed, and a feature of these systems was responsibility. Another of Henderson's catch-cries was 'I want somebody I can kick'. He did not talk about the powerless poor, yet his insistence that poor recipients of social benefits should have redress against substandard service delivery had a strong element of transfer of power.

What of the applicability of this value system in the twenty-first century? I have already noted its deep unfashionability; it is not a system that is in the interests of the current, largely financial, elite; they prefer economic rationalism. Again, it is

not congenial to those advocates of the interests of the poor who think they have found the answer; it is too open for that. However, it will have its quiet attractions as people try to learn how to live within environmental limitations, and how to reject individualistic materialism in favour of something more meaningful. It is, after all, deeply traditional; yet it has modified tradition for the transition to the information economy by its emphasis on knowledge and open analysis.

Applicable underlying values are a prerequisite for future relevance, but there must be more than this. From the point of view of the project to develop a new social settlement, the Henderson report is important for its critique of the postwar settlement, seen from within. The Inquiry took place at that critical time when the postwar settlement was beginning to fall apart, but it was believed that the essential elements would still hold and that the settlement could be improved by marginal change. Further, though financed by government, the Inquiry had full academic independence. Having been appointed by the McMahon Government, it was distanced from the Whitlam 'Grand Program' for the importation of European social democracy complete with national superannuation and disability insurance. Relations between the Inquiry and Whitlam's Minister for Social Security, Bill Hayden, were not always cordial, and Hayden in his autobiography depicts Henderson as an academic thug.¹

Henderson and the postwar settlement

As he wrote his report, Henderson knew that the times were changing, but he failed to foresee the end of full employment. He expected that inflation would be tamed and both full employment and economic growth re-established. However, full employment did not return even though inflation eventually subsided, and economic growth, however measured, has remained below the levels achieved in the postwar decades. Hamilton and Saddler even argue that it ceased in the mid-1970s.²

Henderson strongly approved of full employment and the minimum wage, but he certainly did not approve of the wage demands which were partly responsible for wrecking the postwar settlement. He likewise supported economic growth. He identified full employment, in the sense that a full-time job was available at or above a minimum wage for everybody willing to work at that wage, as the underlying precondition for his proposals for abolishing poverty, and believed that continuing economic growth coupled with the security of full employment would underpin generosity towards the poor.³ Were he alive now to see the economic foundation of his strategy so manifestly broken, he would not be surprised that it was not implemented.

In the poverty report, Henderson's fundamental criticism of the postwar social settlement was that, despite the considerable benefits of full employment, the settlement was not sufficiently generous to the poor.⁴ In the early 1970s the Australian poor were overwhelmingly people who for various reasons were unable to receive satisfactory incomes from work and therefore depended on the social security system. Full employment meant that there were very few working poor, though there were working people who could not afford decent housing or health services. Henderson accordingly recommended that the postwar settlement should be improved with better health, education and welfare services, with more public housing, and especially with increased redistribution through the social security system.

Henderson's criticism of the postwar social settlement was that, despite the considerable benefits from full employment, the settlement was not sufficiently generous to the poor.



This all sounds a bit too simple under our new circumstances with large numbers of working and work-deprived poor. Even so, Henderson's strategy of redistribution is worth describing in more detail.

The strategy of the Poverty Inquiry: redistribution

The policy recommendations of the Poverty Inquiry boil down to a proposal for increased redistribution targeted on the poor, both through the tax/social security system and through largely tax-financed provision of housing and of health, education, welfare and other services (though there is also provision for a significant voluntary element). Some of the flow of income that would otherwise accrue to the non-poor would be diverted to benefit those who would otherwise have no income, or would otherwise have insufficient assets; or would otherwise receive poor services.

The recommendations of the Poverty Inquiry boil down to a proposal for increased redistribution targeted on the poor.

Does this mean that Henderson subscribed to a crude income definition of poverty? Both the concentration in the poverty survey on poverty defined in current cash income terms, and the concentration on the social security system in the recommendations of the report, make it appear so, but this was not Henderson's view: rather, poverty has many aspects, of which cash is a mighty important one and can be used for the crude statistical identification of poor people. However, this primary identification should be adjusted and broadened. Because of the difficulty of quantifying such aspects of poverty as social isolation, it is better not to use them to establish entitlements at the national level. Rather, they should affect local service provision. At the local level the necessary information is more likely to be available.

Whether at the family, local, national or, nowadays, international levels, redistribution is a fundamental human activity, with a much longer history than the market and a central role in all human economies. The need for redistribution arises from the imperfect matching, among individuals, of productive capacity and needs. Prime-age adults can generally produce more than they need; babies and old people less. More recently in the long sweep of human history, a secondary need for redistribution has arisen from specialisation in different areas of production. Markets arose as a convenient means of arranging this form of redistribution, but have never satisfactorily addressed the primary disjunction between productive capacity and need.

Since the beginning of humanity this disjunction has been resolved by redistribution largely within families and extended families, often with strong ritual elements.⁵ However, over the past few centuries these traditional arrangements have been partly replaced by market exchange and even more recently have been supplemented by the tax/transfer system. When people speak of redistribution these days it is generally the market distribution of income, which they take as primary; and the tax/transfer system, which they take as the mechanism of redistribution. Market ideologues trumpet their concern that taxes and transfers will interfere with productive efficiency by diluting market incentives. In reply, it has been argued that markets reward the powerful and the corrupt, and that redistribution can be used to create egalitarian societies which in the long run have greater potential for prosperity than do market societies deeply divided between rich and poor.⁶

At the macroeconomic level, greater equality is not the only effect of redistribution. It increases demand for simple needs-related goods and services relative to status-related goods and services. We shall return to this aspect in considering the future

of the world economy. However, Henderson's arguments for redistribution were not based on this, but on unmet needs. He made an unashamedly ethical appeal to Australians' sense of fairness; to the tradition of a fair go.

In appealing to the sense of fairness, Henderson was depending on people's experience of redistribution within families. Despite the evidence of family breakdown presented to the Inquiry, Henderson believed that intra-family redistribution was functioning satisfactorily in most Australian families, and could provide the basis for an analogy supporting formal redistribution at the national level. In his recommendations on social security, he assumed that redistribution took place satisfactorily within nuclear families; and that, if it did not, the remedy lay in social work at the local level rather than in trying to take such circumstances into account in setting entitlements. Outside nuclear families, he assumed that, under Australian circumstances, redistribution in kind rarely provided sufficient cash support for poor people, but that it could be very important in provision of services.

While the Poverty Inquiry was in session the concept of community was much lauded in social welfare circles. In Henderson's view much of the talk was excessively idealistic; but he strongly supported blurring the boundary between formal and informal redistribution, especially through the use of volunteers in service provision.⁷ This contrasts with more recent efforts to extend the market into welfare service provision by employing private firms as contractors for the provision of centrally prescribed and circumscribed services (known as the purchaser/provider split). In Henderson's approach, both paid and unpaid workers have the common motive of service; in the new contractarian state, service provision is subject to conflicting motives of profit maximisation and expenditure minimisation, with service quality coming a poor third. The concept of service without a quid pro quo, like the concept of redistribution, is deeply troubling to market ideologues, as is the habit of volunteers of developing empathy with service recipients and acting as advocates for their needs.

Henderson was deeply opposed to reliance on markets for the provision of health, education and welfare services. He argued for state responsibility, delegated as far as possible to the local level. An important reason for this delegation was that volunteers and semi-volunteers (people who work at less than market wages) should be encouraged, rather than suppressed in the interests of financial control. Unlike those who confuse small government with low taxes, Henderson believed in small governments; local responsibility for local services. Henderson's recommendations in welfare services bring together proposals to blur the distinction between government and voluntary redistribution with proposals for the creation of local communities. Both aspects were designed to strengthen local informal relationships. (Roman Catholics may recognise an echo of their doctrine of subsidiarity.)

The Guaranteed Minimum Income

Despite the Inquiry's thoughtful treatment of welfare services, the best-known elements in Henderson's recommendations for increased redistribution were his proposals for the social security system, particularly the Guaranteed Minimum Income proposal.⁸ Subsequent assessments of his GMI vary, from the view that it was a completely impractical scheme to the view that it was an eminently workable simplification of the tax and social security systems; or perhaps a subtle

Henderson was deeply opposed to reliance on markets for the provision of health, education and welfare services.



It is very easy for the means test to become a poverty trap, imposing a reduction in disposable income as private income increases.

defence of the existing system against the social insurance proposals current under the Whitlam Government, or perhaps just a theoretical standard useful in assessment of alternative systems. For the moment, I wish to emphasise its value as an analytical device.

Henderson's GMI comprised two elements: a demogrant and a proportional tax, which could be an income tax or a GST or (most likely) a combination of both. In its simplest version the demogrant would be set above the poverty line. All adults would be paid the same, and all parents would receive add-ons for children. As compared with the current system, this represented a massive simplification, ensuring no family would live in income poverty while eliminating poverty traps and excessive administrative discretion.

But the system required a tax rate of 58 per cent on all private income. Henderson judged this too high. He was well aware of the tax resistance of the Australian population; a resistance that was soon to manifest itself in the political and media popularity of tax cuts. Henderson cast around for measures to reduce the tax rate while maintaining, as far as possible, the effectiveness of the scheme in eliminating poverty. He did not invent the concept of targeting; which was already embedded in the social security system, but his principle that assistance should go to the poorest first drew him to it. However, he realised the potential of targeting to create invidious distinctions, and in the GMI attempted to minimise its significance while directing assistance to the poorest first.⁹ Within the broad design of the GMI three types of targeting were possible.

- Demogrants could, like social security entitlements, be calculated on an income-unit basis, with couples paid less than twice the single adult amount. This brought the GMI closer to the existing system at the cost of having to distinguish couples from single people. As the institution of marriage broke down this was an increasingly difficult task.
- More drastically, demogrants could be varied to favour people who fell into the traditional social security categories. A reduced demogrant (Henderson opted for half the poverty line) could be paid to people not falling into these categories, as an admittedly inadequate but automatic source of income for those who did not fall into the full-support categories and would otherwise have nothing. This form of targeting responded to public perceptions that the aged, the disabled and widows had greater reason for dependence on social security than people in general. The cost was twofold. The GMI no longer automatically lifted everybody out of poverty, and the distinctions were not in all cases fair, or proof against adverse incentives towards behaviour designed to attain full-demogrant status.
- Finally, means tests or kinked tax rates could be imposed. These would raise the tax rate on the poor so that the rate on middle and upper income recipients could be reduced. Once the payment structure becomes at all complex, it is very easy for the means test to become a poverty trap, imposing a reduction in disposable income as private income increases. In Henderson's GMI means tests were imposed only on supplementary payments for the unemployed and sick, but in the social security system of 1973, as now, they were applied more generally. Along with the progressive income tax, means tests remove the tax simplifications of the GMI design; they require income and wealth to be attributed to individuals and to time periods, and open up extensive avenues of tax avoidance.

By the time he had targeted it to yield a proportional income tax rate of 35 per cent (or, say, a GST of 15 per cent and an income tax of 25 per cent) Henderson's GMI was not so very different from the tax and social security system then current: a little more generous, perhaps, with some of the poverty traps ironed out and reduced stress on social security eligibility, but still sufficiently similar to warrant interpretation as a defence of the existing targeted system against the social insurance proposals then current. According to this defence, the Australian social security system was not just ad hoc; it had the makings of a GMI which could be universal, like social insurance, yet more tightly targeted than its social insurance alternatives.

The era of targeting

Henderson's intellectual experience of tightening the targeting of the simple theoretical GMI to reduce the tax rate became the practical experience of governments over the next twenty-five years.¹⁰ Targeting came to be seen as the way to reconcile the increasing demand for social security and other redistributive services with demands for tax cuts. Henderson would not have been surprised: he knew that a failure to return to full employment would increase the demand for redistributive payments and services; and he believed that a reduction in the rate of economic growth would stifle the generosity on which his proposals depended. The two aspects were connected, since the failure to utilise productive resources issued in reduced economic growth.

The end of full employment increased the demand for redistributive payments and services in several ways. Most obviously, it increased the number of people unable to find work; not only among the general population, but among those who in any case would be eligible for social security; hence an increase in the number of people claiming disability and single parent's payments in addition to those claiming unemployment benefit. Indirectly, it increased the demand for health services (unemployment could easily lead to sickness) and for education and training (a demand for skills, to avoid the unemployment which was so generally the fate of the unskilled) and indeed for police services (demanded by the rich to control the criminal activities of the young and idle poor). It may also have been among the factors increasing the number of people wanting work, particularly married women seeking to supplement disappointingly low family incomes. Other changes that increased social security entitlements included an increased rate of marital breakdown (partly related to unemployment, partly a response to Whitlam's decision, supported by Henderson, to make pensions available for single parents, and in part a reflection of more general social trends, including the liberalisation of divorce law) and the ageing of the population (seemingly a demographic phenomenon, but in practical effect related to unemployment, since early retirement became a way of managing the slack demand for labour).

Independent of the end of full employment, the demand for spending on health services was further increased by the innovations of technological medicine, while the demand for spending on education was increased by employers' rising skill requirements.

Targeting came to be seen as the way to reconcile the increasing demand for social security and other redistributive services with demands for tax cuts.



The generalisation of poverty traps was among the factors contributing to the increase in the proportion of no-earner households.

The social security system was also beset by social and economic changes which undermined its targeting. Not only did the rise in the unemployment rate make it difficult to administer the work test, which had previously been used to identify and target the unemployed; but the rise in the proportion of part-time jobs also increased the seriousness of the poverty trap inherent in means testing. In former times, with full-time jobs available at a minimum wage, it was possible to set the unemployment benefit rate at or around the poverty line, couple it with a steep means test and still be able to offer work which paid more than the benefit. With the trend to part-time employment the poverty traps inherent in targeted assistance meant that beneficiaries could be worse off by taking the available part-time work. However, the arithmetic Henderson had grappled with in the GMI was as compelling as ever. Targeting involving means tests translates into poverty traps. Meanwhile the best that could be done for the work test was to supplant it with training tests (at the risk of wasting time and government money on useless training); the worst was to set the unemployed to work harassing small business with fruitless job applications.

Social security reform was a little more successful in the area of assistance to single parents. As Henderson had noted, social trends were such that it was increasingly difficult to define single parenthood; and, also, it was increasingly acceptable for mothers to work. This highlighted not only the poverty trap aspects of the pension means test, but the financial difference between people who qualified as single parents and those who did not. As in the case of the unemployed, the demand for targeting kept the means test steep, but it proved possible to reduce the stress on single parent status by extending means-tested assistance to other poor children. Not only did this reduce the entitlement differential arising from being a single parent; it increased the adequacy of social security payments for the increasing number of working poor with children. The cost was the extension of poverty-trap tax rates to all low-income parents.

In emphasising the constraints limiting changes to the redistributive services during the past twenty-five years, I do not wish to underplay the achievements. Rearguard action it may have been, but base rates were maintained, and both the social security system and the redistributive services remained largely intact and in some areas were improved. The trend towards tighter targeting may also have helped to relieve more poverty from less funds, at least in the short run. The system demonstrated its resilience by weathering a major adverse shock (the end of full employment) with its fundamental values intact. During the period of the Hawke/Keating governments it has accordingly been found that increased redistribution countered the trend to inequality generated by the labour and asset markets, at least if a broad view is taken of the income unit (and hence of the capacity of families to redistribute between their members).¹¹ However, one may speculate that the generalisation of poverty traps was among the factors contributing to the increase in the proportion of no-earner households which, along with the increase in two-earner and the rapid decline in single-earner households, has been an important trend over the past couple of decades. More generally, it is my judgement that there is little scope for further tax cuts financed by more accurate targeting. In future, and in the absence of a return to full employment, tax cuts can only be bought at the expense of excluding portions of the target.

If the opportunities for creative social policy over the past quarter-century have been limited by the end of full employment and the demand for tax cuts, what of the future? Australia is not alone in having experienced both of these limitations, which have been exported from country to country through the processes of world trade and investment. These deserve a look before we consider the future in Australia.

Trends in the world and Australian economies

Instead of returning to full employment after the inflation of the 1970s and 1980s the world and Australian economies became reminiscent more of the 1920s than the 1960s.¹² The world economy in the 1990s was characterised by the following trends.

- Interdependence between countries increased. It is usual to claim that this resulted from irresistible technological change, especially the developments in electronic communications which made it easier to evade national controls on financial transactions. However, under ideological influence, most governments, including Australia's, were eager to bow to the claimed inevitability of globalisation. They willingly gave up powers of control over market activity.
- Despite the hyperactivity in financial markets, the fear spread that environmental limitations would soon curtail economic activity, and perhaps even bring about the end of economic growth as we have known it. There are threats of starvation in poor countries while rich countries contemplate the distressing possibility that motoring may have to be curtailed.
- Surplus capacity (or lack of demand) has appeared in many areas of production, especially simple manufactured goods but also mining and nearly all types of labour-intensive services. This surplus capacity is reflected in the unemployment and underemployment of workers in virtually all countries, and can ultimately be traced to a lack of demand for their services. Despite the generally slack demand for labour, full employment continues to exist in a small number of new-technology industries, in all of which American firms are prominent. However, even in these industries full employment is precarious (consider, for example, the consequences of shifting software development to India).
- Allied to the surplus capacity is the devotion of significant research, marketing and media resources to the creation of demand for the products of private industry. The strategies include product development and the manipulation of fashion and status. The private sector has been active in promoting the substitution of private products for goods and services hitherto produced in the household and government sectors. In part the demands for tax cuts, privatisation and contracting-out emanate from this source.
- The military and economic dominance of the USA has promoted the spread across the world of the individualistic and materialistic ideologies cherished by the power elite in that country. This power elite centres on the financial sector; it excludes organised labour and the poor, whose allegiance to the dominant ideology is tenuously maintained by belief in the universality of opportunity and in trickle-down effects, and by an active police force. The demand for tax cuts also draws from this ideology.
- Secure in its position of power, the American/world financial sector has been demanding rates of return in excess of the yield available from the real economy (this is sometimes called short-termism). Far from rising, as the financial sector requires, these yields are diminishing due to the onset of environmental constraints

Most governments, including Australia's, were eager to bow to the claimed inevitability of globalisation.



Through its failure to invest in high technology, Australia has condemned itself to declining incomes.

(though technological optimists would deny this). Financial crises are endemic to the system, and it is but a matter of time before such a crisis strikes the system at its heart. It has been said that America is a Thailand waiting to happen.

- Improvements in communications have encouraged both the centralisation of business decisions within firms (branch offices lose their discretions) and the shedding of non-core activities to specialist contractors and subcontractors. Subcontracting to competitive small business financed from its own savings and content with relatively low rates of return assists larger firms to meet the financial targets set by the stock markets. Within product markets, they can position themselves to take advantage of both oligopoly (few sellers) and oligopsony (few purchasers) profits. This knowledge-industry model has been the basis of the recent revival of American competitiveness vis-à-vis the corporate states (particularly Japan). It is possible, but not likely, that as this model develops small firms may form networks by which they can evade both financial and big business power.

An opportunity for change is most likely to arise with the next American financial collapse. Doubtless, the immediate reaction will be to try to shore up the system. However, there is little scope for the Keynesian measures which brought recovery from the 1930s Depression: demand has been sustained for too long already by easy money and tax cuts. The failure of Japan to recover from the financial crisis of 1990 provides an instructive precedent. This partly mirrors the frenzy of the preceding boom, but also reflects underlying factors; the economic model which served Japan so well in the postwar era can no longer do so, and substantial redistribution is required to reach a new and viable model. The Japanese Government is unable to contemplate this redistribution, and is attempting to revive economic growth by inappropriate Keynesian measures which are simply not working.

The opportunity is that the disgrace of the financial system, and its need for a bale-out, will allow democratic governments to regain control. The danger is that the disgraced financiers will seize power and impose a new fascism.

A central role for redistribution

Hoping for the best, how can the world economy be revived after the next slump? Two simple steps may be recommended: massive redistribution, not only as a matter of justice, but to bring the pattern of demand closer to the pattern of capacity; and a major diversion of resources to environmental rectification and protection.

Though not completely so, these two steps are largely complementary. In terms of present politics they are, however, visionary, since they require increases in taxes and the taming of the market, particularly financial markets.

Though it is at present politically unthinkable, the number of losers from a world redistribution scenario is likely to be quite limited. Take, for example, Australia. Under the present system, Australia, through its failure to invest in high technology and its commitment to commodity production, has condemned itself to declining incomes. Under world redistribution it would be required to desist from supporting its standard of living with a balance-of-payments deficit, and indeed would be required to turn this around into a flow of investment funds

into poorer countries. However, the world redistribution would yield dividends for Australia in terms of increased demand for its commodity production. The net effect on Australian incomes may be upward, particularly if Australia is able to accommodate new patterns of demand and supply by switching consumption away from goods with high environmental costs.

Against such a background, what of the future of Australia's domestic redistributive policy? Under a globalisation-as-usual scenario it is difficult to be positive about Australia's social future. Even in the complete absence of original sin it will not be easy to manage a combination of generally declining incomes with increasing inequality, both between families and between geographic areas. It will probably be necessary for the globally oriented beneficiaries of the system to suppress widespread discontent. At the extreme, Australia taking this route could end as it began: a penal colony, with the difference that it becomes a penal colony for its own citizens rather than those of a mother country.

However, what are the prospects under a world redistribution scenario? Increased domestic redistribution would be complementary to increased world redistribution, and could include the following.

- Demand should be diverted towards goods and services for which spare productive capacity exists, which in Australia's case are likely to include education and land-care services, and away from goods with high environmental costs. In part this can be accomplished by redistribution of purchasing power towards people likely to buy such things, but the major part of the shift in demand will have to be tax-financed (that is, taxes will increase to finance improved educational and environmental services).
- Henderson's localisation of service provision, and blurring of the boundaries between the paid and the volunteer, should also be revisited. This would reform Australia on European social-democratic lines, but in a tradition that can readily incorporate our heritage of voluntary agencies. This could help to ensure that money is not wasted when the provision of redistributive services is increased.
- The cash redistribution system should be straightened out, especially the poverty-trap aspect. Steep means tests are an anachronism when coupled with a labour market in which there is already, and is likely to be in the future, a significant proportion of part-time jobs generated by the adoption of the knowledge-industry model of economic organisation. Straightening out means tests would require tax increases across some stretches of the income distribution.

Suggested first steps in straightening out the social security system include the following.

- Means testing could be removed from those parts of the social security system which add on to the basic entitlements, and where large segments of the working population are already entitled. Opportunities include reintroducing child endowment free of means test, possibly with a quid pro quo of reduced subsidisation of private schools, and perhaps some of the allowances in the education and housing areas.
- The taper of existing means tests can be eased, at the expense of broadening entitlement to means-tested part-payments. This will highlight the overlap between the social security and taxation systems. It may be useful to revisit the Henderson

Under a globalisation-as-usual scenario, it is difficult to be positive about Australia's social future.



It may be useful to revisit the Henderson Guaranteed Minimum Income, perhaps to the point of abolishing means tests outside the tax system.

GMI, perhaps to the point of abolishing means tests outside the tax system. This would involve facing up to the inequity that means tests include an asset component which is missing from the general taxation system. Henderson's solution—using income only—did not prove satisfactory; the alternative is the insertion of a wealth element, which need not be severe, into the tax system.

It is at least arguable that the GMI is the appropriate social security design for a country that adopts the knowledge-industry model. Its no-questions-asked basic income takes some of the personal risk out of a system with widespread subcontracting, while its uniform tax rate allows everybody to participate in the buccaneering economy of niche market jobs. An alternative may be to adopt European social democracy, which already has a track record in the creation of egalitarian societies. The choice will be strongly influenced by how well the European social democracies weather the next financial meltdown. If they prove to be resilient, they will provide an overwhelmingly attractive precedent. However, it has yet to be seen whether they can adapt to the success of the knowledge-industry model in the United States and elsewhere.

Whatever happens, social policy should develop self-confidence vis-à-vis the market ideology. Redistribution is fundamental to human society, and has been practised within families since the beginning of humanity; markets are more recent and less fundamental. In large degree, redistribution via the state is intra-family redistribution writ large for the realities of a technological society. And, whatever its effect on market incentives (which can often be favourable), redistribution can make a major contribution, not only to justice, but to the workability of the world macro economy, and to national macro economies.

And the wages of original sin are such that the opportunity to make this contribution may come sooner than we think.

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5 Whither the Welfare State?

Robert Goodin¹

For those accustomed to seeing the welfare state as a great ethical project, meditations on its future characteristically serve as occasions for rededicating ourselves to those higher moral purposes. Others among us take a charier attitude towards the welfare state, regarding it as an unfortunate necessity with no fixed form or functions, adapting as required to mop up the messes we make of our socio-economic affairs.

Both views, I submit, are correct. Answering the call of human need, responding constructively to one another's misfortunes, is a great moral good. But, as with so many of the other classic virtues (courage, for example), the circumstances which provide an opportunity for displaying it are deeply regrettable. Far better, for all concerned, if no one's fundamental needs were ever at risk of not being met. Alas, they all too often are, and in a wide array of ever-changing ways.

Thus, the question of 'whither the welfare state?' is rightly seen as posing questions both prescriptive and descriptive. We need to consider what moral purposes the welfare state generically ought to serve. We need then to consider what, more specifically, the welfare state needs to do to discharge those functions in present and foreseeable socio-economic circumstances. Finally, we need to consider what resources might be available, in those foreseeable futures, to discharge those functions.

Moral purposes

Many different values, goals and moral purposes have been ascribed to the welfare state by different moral theorists and by practical politicians at different times and places. Among those listed by the British Labour Party's 1994 Commission on Social Justice are these:

- The prevention of poverty where possible and relieve it where necessary.
- The protection of people against risks arising in the labour market and from family change.
- The redistribution of resources from richer to poorer members of society.
- The redistribution of resources of time and money over people's life cycles.
- The encouragement of personal independence.
- The promotion of social cohesion.²

But that list represents not so much a 'consensus' as it does a mere 'compilation'—a laundry list of competing alternatives which, according to the conventional wisdom anyway, are at least partially incompatible.

Just how incompatible all those alternative goals might be is a fundamentally empirical proposition. Philosophers, whose professional stock-in-trade is making ever finer distinctions, delight in forcing the issue of trade-offs by conjuring up often deliberately playful scenarios in which we would indeed be obliged to make hard choices. But empirically it often turns out that we do not have to choose—often there is some way of getting all good things at once. The Netherlands, and the social-democratic tax-transfer regime for which it stands, achieves all those goals at least as well or better than any other of the major regimes we studied in a recent work on comparative welfare states.

We need to consider what moral purposes the welfare state generically ought to serve.



Whenever someone's fundamental interests are vulnerable to our actions and choices, we have a moral duty to protect them.

Sometimes, then, empirical evidence might pre-empt moral disputes over the 'proper' purposes of the welfare state. But sometimes it will not. Sometimes the facts might not line up so neatly behind one particular regime, no matter what goals we harbour. Sometimes the dispute among moral theories might go deeper than that strategy can hope to resolve. And oftentimes philosophers are just too enamoured of professional disputations to look for, or to be glad of, an easy resolution to their carefully nurtured disagreements.

Thus, if we want to issue policy prescriptions with any confidence, we really do have to say something to address the issue of the moral purposes of the welfare state. Furthermore, if we want those policy prescriptions to stand much chance of being taken up—rather than embroiled in endless 'philosophical' wrangling of the worst sort—we really ought try to base our prescriptions on moralism of a most 'minimalist' possible sort. That is to say, rather than just plunking for one or another of the standard competing goals welfare states might serve, and girding ourselves for the long arguments that will inevitably ensue, we should be looking for the more general goals that most people will agree on, no matter what their higher aspirations for welfare states.³

In earlier work, I have nominated the notion of 'protecting the vulnerable' for that role. It is a deeply conservative notion—virtually feudal, some say.⁴ I would not wish to claim for a moment that the state should limit itself to that minimalist role in promoting the well-being of its populace. But we should do at least that, whatever else we should do for whatever other reasons. The virtue of that minimalist proposition is precisely that it is just the sort of proposition that can be endorsed by nearly everyone from nearly any perspective. Whenever someone's fundamental interests are particularly vulnerable to our actions and choices, we have a moral duty to act in such a way as to protect them and their interests.⁵

That is a general moral proposition with a great range of applications. One of the clearest applications, however, is to endorse collective provision to secure the basic needs of those whose basic needs would not otherwise be met. Insofar as those people have nowhere else to turn—insofar as their basic needs would indeed not be met otherwise—then we collectively, through the agency of our organised political institutions, have an obligation to meet them, insofar as we are able to do so.

That formulation, notice, is perfectly consistent with the further claim that the state should not necessarily be anyone's first port of call. Indeed, the proposition, as stated, would make it their last. While it overstates the situation somewhat, that first approximation does effectively capture the important observation that people are also vulnerable (typically, more vulnerable) to their own actions and choices, and to the actions of various other people more intimately associated with them, than they are to the impersonal agency of the state. Obligations to 'protect the vulnerable', therefore, fall first and foremost on individuals themselves. Prudent planning for one's own future is morally enjoined. And obligations to 'protect the vulnerable' fall, as a first fallback, on others more immediately to hand (family, friends, neighbours, workmates and so on). The state's responsibility to provide for people's basic welfare needs arises only as a second fallback, as it were, coming into play when those others have proven unable or unwilling to discharge those obligations.

As I said, that blunt formulation rather overstates the case. A more nuanced reading of the principle must take account of the differential capacities of all the various agents who might be morally responsible to tend to any given individual's basic needs. Of course, needy individuals are all too often found in needy families and needy neighbourhoods. In such circumstances, there is every reason to suppose that the principle of protecting the vulnerable excuses other equally vulnerable agents from any obligation in the matter, and sheets the responsibility directly to the wider community, acting through the organised agency of the state. But where the individual's own effort, or the reasonable efforts of family and friends, realistically could be expected to make a substantial difference, then the primary obligation falls to them, on this 'protecting the vulnerable' model.

If that seems to be conceding too much to those who would want to 'privatise the welfare burden', let me merely emphasise that on my model the state does indeed bear residual responsibility for meeting people's basic welfare needs, and that that residual responsibility is far from a notional one. The state's residual responsibility is activated whenever others with more primary responsibility prove either unable or unwilling to discharge it. Specifically, I eschew robust models of 'personal responsibility' such that people must be forced to live with the natural consequences of their previous choices; that they contracted lung cancer by smoking cigarettes which they knew were likely to give them lung cancer is no reason to deny them medical services, for example. (That is particularly true where, as in the case of cancer, there is nothing further they can do about it now.) I also eschew robust forms of privatisation as regards interpersonal responsibilities, such that people would be denied public assistance so long as any other source of non-state support is logically possible. If it is clearly not going to be forthcoming, then the fact that it is in some logical sense 'available' should be regarded as simply immaterial.⁶

The upshot of this is that the state will be left with a very large role—formally residual though it may be—in protecting the basic needs of all those who find themselves vulnerable in our society. That, as I say, defines the minimum moral role of the state in the social welfare sector. There are various other arguments, more contentious than this, for assigning it wider responsibilities in various other respects. I remain formally agnostic on the more contentious extensions of state responsibility, noting that even these minimal responsibilities are under increasing pressure.

Increasing vulnerabilities

Social security is conventionally said to rest on four pillars: the state, the market, the family and the community. That is the message of the famous trio of post-war Beveridge reports, pointing respectively to the state, labour market and voluntary sectors.⁷ That is the message of today's analysts of the 'mixed economy of welfare'.⁸ That is the message of the World Bank and OECD, which argue that the state share should be pared back and those other sectors be allowed to bear more of the welfare burden.⁹

Across the OECD world—from Britain and America to Germany and Australia—politicians are warming to that message. Public pensions are being cut back and people are being encouraged to take out private pensions instead, or in addition, through compulsory private superannuation in Australia and the new Stakeholder

The upshot is that the state will be left with a very large role in protecting the basic needs of those who find themselves vulnerable in our society.



The ‘standard employment relationship’ — full-time, full-year employment with the same firm for the whole of your working life — is increasingly a thing of the past.

Pension scheme in Britain. Policies of deinstitutionalisation and ‘care in the community’ similarly shift the burden for caring for everyone from the frail elderly to the mentally ill from public to private spheres. ‘Welfare to work’ policies, once again, attempt to shift people off public welfare rolls and onto private payrolls, whether by gentle means (the UK’s ‘work-oriented interview’, for example) or harsh ones (such as the ‘two years and you’re out’ rule in the 1996 US welfare reforms). Yet another policy innovation in the same genre is raising the age at which young people will be considered independent of their parents, for purposes of means-testing of public benefits (to 18, now, for unemployed Australians)—thereby prolonging young people’s reliance on the resources of the family rather than the state.

The justifications offered for those policies are many and varied—and in my view, usually pretty flimsy.¹⁰ Here, I want to focus on the fact that all those cutbacks in state provision are predicated on the assumption that the other three pillars (the family, the market or the community) are actually capable of taking up the slack as the state reduces its welfare role. That assumption is radically untrue. Those other pillars are themselves crumbling at the same time as the state pillar is being chipped away.

The family is increasingly unable to underwrite people’s social security in the way it used to do, for a variety of reasons. One is family instability: decreasing rates of family formation and increasing rates of family breakdown. Age at marriage is rising, in some places dramatically so. The numbers of ‘never marrieds’ and single-person households are also increasing. The ‘divorce revolution’ leads increasing numbers of households to break down.¹¹ Fewer people are forming families, and those families that do form are having fewer children. Furthermore, such children as they do have are becoming increasingly mobile.

The second classical pillar of social security has long been the economic market, in its various forms. People used to be able to take care of themselves and their families through their own participation in the paid labour market, and through arrangements made for them and their families in private pension and insurance markets. These sources of social security, too, are now waning. One reason has to do with the increasing flexibility of the labour market. The ‘standard employment relationship’—full-time, full-year employment with the same firm for the whole of your working life—is increasingly a thing of the past.¹² Flexibility in the workforce makes us more vulnerable to transitional unemployment, as we shift from one job to the next. It deprives us of the advantages of occupational social insurance benefits accrued over a lifetime’s service to the same firm. And it invites us to underprovide for our own social security needs, in an effort to prove competitive in the cutthroat competition among independent contractors for outsourced work.

The community (or ‘voluntary’ or ‘charitable’ or ‘non-governmental’) sector is the other classic source of social support. It, too, is under increasing pressures, of broadly the same sort as plague those other two sectors. The community sector is therefore decreasingly capable of an independent response when those other sectors fail. Consider the changing role of women within the family. All the available evidence suggests that ‘care in the community’, like ‘family care’, was essentially care by female members of the family and community.¹³ Women used to be available for such caring duties precisely because they were relatively loosely attached to the

paid labour market (in part-time or casual positions, if in paid labour at all). That is no longer true. As larger numbers of women enter paid labour on a full-time long-term basis, they have decreasing time left available for the traditional unpaid caring roles they used to perform in the family and the community. That is not to say they do not try. Hence the ‘time bind’ and ‘double-shift’ that working women are increasingly experiencing.¹⁴ But clearly there are limits to the extent to which that can be done, and as more and more women work more and more hours in paid labour, less and less time will be available for them to perform unpaid caring labour in the family or community. Logically, it must be so; empirically, it does seem so, to a very significant extent.¹⁵

As the community sector is increasingly starved of voluntary labour, it is increasingly obliged to replace it with paid employees. This collapse of the community into the market sector is exacerbated by the contracting out of public services to private providers. In throwing the bidding open to private providers, whether they are in the market (‘private for-profit’) or in the community (‘private not-for-profit’) sectors, the competitive tendering process obliges private not-for-profit providers increasingly to mimic private for-profit ones. One reason is simply that they are competing for the same contracts, responding to the same ‘tender briefs’ and trying to do the same things in the same ways. Another reason is that ‘competition policy’ requires parity among all tenderers. Non-profits are thus obliged to conform to the same rules and procedures that have long governed private for-profit providers in the market sector. In all these ways, too, the independence and distinctiveness of the voluntary community sector is increasingly diminished.

The long and the short of the matter is this: the state is backing out of the business of protecting the vulnerable, through generous public welfare provision. It is increasingly relying on the other sectors to do more of that work, at just the same time as all those other classic pillars of social security are being eroded. All the pillars are collapsing at once, leaving all too many people vulnerable. Of course, many people are still blessed with stable marriages, caring kin and communities, secure employment and comfortable benefit entitlements. But growing numbers of people are vulnerable on all those fronts. For them, market, family and community pillars prove to be woefully inadequate substitutes for reduced state provision for social security. These are phenomena that are common across the OECD world, varying from one place to another only in degree. In addition to these common forces, there are also, of course, peculiar forces at work undermining what used to be pillars of social security peculiar to particular countries. The traditional ‘settlement’ in Australia, dating back to the 1907 Harvester judgment and consolidated in the early postwar period, is a prime case in point.¹⁶

Destandardised needs

‘Destandardisation’ is one of the main themes running through all these stories of why traditional pillars of social security are collapsing. That is clearly central to the ‘flexibility of the workforce’. With the end of the ‘standard employment relationship’, people’s employment patterns will be distinctly ‘non-standard’ and idiosyncratic from now on.

Destandardisation is seen in the family sector as well. There, too, people’s relations are becoming increasingly idiosyncratic. The old model of ‘mother, father and two

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children', linked for life, is decreasingly the norm. Even if it is just a matter of serial monogamy replacing lifetime fidelity, people's family affairs are nonetheless now characterised by a bewildering array of obligations in the backwash of partnerings and repartnerings (and past partners' partnering and repartnering, and so on). It is not just a matter of the nuclear family no longer being the standard family type. To a very large extent, there is now no single standard family type; nor is there even any small set of family types. Increasingly, social policy will have to treat each person's family circumstances as *sui generis*.

The destandardisation of employment relationships and family form has important consequences for how both community and state sectors respond to social need. It used to be the case that voluntary charities and state agencies alike could organise their programs around recognisable classes of needy persons. Charities grew up to help categories of people such as 'orphans', 'unwed mothers', 'the homeless', and so on. Welfare states similarly tended to rely heavily upon 'categorical benefit' programs of one sort or another to target assistance on the 'deserving poor'.

The categorical nature of those public and private programs was always seen as crucial in avoiding the creation of disincentives to labour among the able-bodied poor who should be supporting themselves. Insofar as there are whole broad categories of people who cannot reasonably be expected to earn their own living (traditionally the old, the disabled, the widowed and orphaned), targeting public and private assistance on people in those categories allows us to provide generous benefits without fear of encouraging sloth among those who really ought be working for a living.

Be such work disincentives as they may (and it should be said that it is contentious just how much disincentive to labour might be involved¹⁷), such categories and conditions also no doubt serve simply as an administrative convenience. They are handy ways of batch-processing social claimants. They perform that role well, just as long as everyone's circumstances can indeed be adequately captured in a few simple categories and conditions. Previously they could: most people really did fit one or another of a very few employment patterns or family types. Categories, and conditions framed around them, used to be able to guide social policy tolerably well, in consequence.

Now, however, there is no manageable-sized set of standard categories or conditions that can capture the variety of people's actual vulnerabilities, occupationally (with the flexibility of the labour market) and personally (with the flexibility of the marriage market). The upshot is that both the state and community sectors increasingly will have to abandon categorical and conditional modes of providing social protection, if they want to address people's real vulnerabilities.

Make social protection more discretionary

One response to that destandardisation of needs for social protection would be, 'Back to the old poor law and Lady Bountiful!' Victorian-era charities tailored their gifts to individuals' peculiar circumstances, as benefactors perceived them. The guardians of the old Poor Laws assessed each individual's case on its own peculiar merits, treating each case coming before them as *sui generis*.

There are proposals to devolve much of the welfare burden back to the ‘community sector’—private charities unconstrained by public law and policy—and case managers within the public sector with discretion almost as broad. That occurs most dramatically in connection with the more draconian workfare schemes. But it even occurs, to some extent, whenever case managers are assigned responsibility for putting together packages of community services for ‘clients’: the clients’ capacity to pick up and take their business elsewhere is strictly limited; the case manager’s responsibility is to serve the client’s needs, as the case manager perceives them, whatever the client thinks about them.

Those are unattractive scenarios. They amount to giving one person absolute discretionary power over resources that another person needs in order simply to survive. One person is subjugated to another’s will, in a way that is potentially almost total.

The ordinary solution to those sorts of problems is to hedge people’s discretion in various ways. But that will not be easy in the sorts of cases here in view. If people’s circumstances really are *sui generis*, and if we really do want social provision to respond to each person’s peculiar circumstances, then there seems to be no way to hedge caseworkers’ discretion through any substantive stipulations. And procedural constraints (due process, administrative law and such like) are far from ironclad, even as applied to public agencies; and it is far from certain whether they can be made to apply at all to contracted-out private providers in the market or community sectors.

Ironically, it might be hardest of all to control the abuse of discretion within the charitable, voluntary community sector. In the market sector of private for-profit providers, at least we have a clear view of what motivates them, that is, profit. With that knowledge, we can predict and try to prevent at least some of the possible abuses that the profit motive might provoke. Private not-for-profit providers have agendas of their own (otherwise they would not be in the business of welfare provision at all). But since their aims are more variable and less transparent, it is harder to predict and control the sorts of ways in which they might abuse such discretion as they enjoy vis-à-vis clients desperate for their services.

Make social protection less conditional

Giving absolute discretionary power to case managers in the state or community sectors is, however, only one way to respond to the problem in view. Another response would be to eliminate all links between social protection and any conditions whatsoever. On this model, everyone should receive the same unconditional public transfer payments, regardless of their circumstances.

There are many forms that such a policy might take. Among the most famous is the proposal for a ‘negative income tax’.¹⁸ Such payments would not be quite unconditional: they would depend on your income being below some threshold, at which point the tax office pays you rather than you paying it. Compared to the vast array of specific categorical programs it is supposed to replace, however, the negative income tax would have to count as relatively unconditional.

A variation on those schemes which has met with more political success is the ‘earned income tax credit’. Those were introduced into American tax law on a modest basis over two decades ago and were greatly expanded as part of the 1996

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welfare reforms. A version of this scheme (‘Working Families Tax Credit’) is now also found in the UK tax code. This scheme once again is slightly conditional: payment depends upon your having earned income of a certain level. But again, the conditionality seems relatively minimal compared to other modes of social relief.

Another family of more unconditional benefits is ‘basic income’. In their more robust form, nowhere yet implemented, the scheme is to make a flat-rate payment to everyone in the country, absolutely unconditionally.¹⁹ A variant on that scheme—which is more conditional, but only slightly so—is for such a flat-rate benefit to be paid as ‘participation income’ to everyone in the country, conditional upon their proving that they are engaged in any of a long list of socially useful activities (paid or volunteer labour, raising children, doing community work, or whatever).²⁰ Perhaps it is a first step in this direction that the ‘activity test’ required under unemployment benefit schemes in Australia can now be satisfied through voluntary work for approved community-based not-for-profit organisations.

A final variation on these themes would be a ‘demogrant’—a lump-sum capital transfer, paid to everyone in the country upon their coming of age. Something like this used to happen in the former Yugoslavia, back when it was a model of market socialism. Something like it is being proposed as a model for a ‘stakeholder society’ by Fabian pamphleteers in Britain and Yale lawyers and economists in the US.²¹

Political feasibility

Naturally, some of these proposals are more feasible than others in present and foreseeable socioeconomic and political circumstances. But each of those strategies admits of at least some variations which seem well within the realm of the possible. Some commentators, for example, would say that unconditional income guarantees of any sort are politically impossible. But earned-income tax credits are already law in the US and the UK and they are under active discussion elsewhere. And although the negative income tax has never actually been enacted, Nixon’s proposals came reasonably close.

So too with ‘basic income’. Pie-in-the-sky as it may seem, it would actually be less costly than it might at first appear. For a start, basic income would be in lieu of all sorts of social benefits which are paid at present, thus reducing its net cost to the national treasury; and since basic income would be taxable, the treasury would claw back a (potentially substantial) portion of it from those with earnings well over the basic income. Thus, while hardly cost-neutral, basic income would not constitute a massive budgetary blow-out, either.²²

Of course, economics are one thing, politics another. In the current climate of ‘mutual obligation’, the most politically saleable version of basic income will undoubtedly be the ‘participation income’ variant. Conditional as that is on socially useful labour of some sort or another, ‘participation income’ is the very opposite of ‘something for nothing’, which is what other forms of basic income all too often seem.²³ As with ‘workfare’, so too with ‘participation income’: the devil is inevitably in the administrative detail. Specifically, much depends upon what is counted as administratively acceptable ‘participation’; and much will also depend upon how much people are paid in return for such participation. But assuming a suitably wide

range of caring activities and participation in a suitably wide range of voluntary community services will count as participation, and assuming the payment for such participation is reasonably generous, 'mutual obligation' may well shade into (or evolve into) 'participation income'.

Or consider, again, the economic and political feasibility of generous demogrants. No doubt funding them through confiscatory death duties would be politically impossible, in present circumstances. But consider this as an alternative: issue every child born today a government bond which will be worth \$15 000 upon that child's reaching age 18. Assuming 5 per cent compound interest, on average, over the next eighteen years, that means that we would only have to set aside around \$6500 for each of this year's newborns in this year's budget. That fully funds their entitlement. Next year we set aside a similar sum for each of next year's newborns, thus fully funding their entitlement; and so on. Of course, none of these children will actually receive any payouts for fully eighteen years; but knowing that they can count on their demogrant, come their eighteenth birthday, will surely shape the way they, their parents and grandparents lead their lives in prospect.

My own preferred policy mix would be a combination of that sort of demogrant for the longer term, combined with a moderately generous form of 'participation income' in the here and now. ('Combined with', because even in the longer term participation income will still be required: the demogrant is a once-and-for-all-time allocation, and we need to make some provision for people who invest their initial endowment unwisely.) The demogrant is a step toward addressing inequalities of capital holdings. Participation income is a step towards addressing inequalities of income flows. Unlike the earned income tax credit, it does not arbitrarily differentiate between productive social labour, depending upon whether it is paid or unpaid. Unlike the negative income tax, participation income does not depend upon an 'income test'—which inevitably captures less and less of people's 'full income', as increasing flexibility of the workforce causes increasing production ('home production') and exchange ('informal economy') to fall outside ordinary economic markets.²⁴

While that is my preferred policy mix, my larger point is simply that we ought to be thinking in terms of some sort of unconditional scheme of social protection. Any of those schemes discussed, and no doubt any of several others not yet envisaged, would be better suited to the increasingly non-standardised world towards which we are moving. In such circumstances we simply have to give up, not only on means-testing, but on conditionality of any form. Let us, instead, give everyone a fair share of social resources, allowing them to arrange their own affairs as they will.

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We ought to be thinking in terms of some sort of unconditional scheme of social protection, better suited to the increasingly non-standardised world towards which we are moving.



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