

Fraser and The Social Wage

Evan Jones

People's livelihoods depend not only on their personal incomes, but on goods and services provided collectively through government spending. We can call services like public health care, pensions, etc., part of our social wage. The last few years have witnessed substantial reductions in government spending on the social wage.

In what follows, these reductions are examined in the light of the role of government spending in a capitalist economy. Whose interests does it serve? The extent of the reductions are examined in the broad areas of education, health, social welfare, etc. Specific changes in spending priorities are also detailed. These changes in spending are then compared with recent changes in taxation related to personal incomes. The result of this examination indicates a substantial decline in that part of our standard of living provided through the public sector. Wage and salary earners are bearing disproportionately the brunt of the present crisis in the Australian economy.

THE SIGNIFICANCE OF GOVERNMENT SPENDING

Governments play a substantial role in modern capitalist economies. Australia is no exception. During the last financial year 1977-78, government expenditure was responsible for about 22% of gross national expenditure. If one includes the activities of public enterprises (like public transport and Telecom) the figure increases to 27%.

In the pure capitalist economy, individuals offer their labour for sale and satisfy their material needs (as far as possible) by exchanging this income for goods and services through the market mechanism. Governments augment this pure case in three major ways. Firstly, they provide collective (or public) goods, paid for collectively out of taxes.¹ It was long ago acknowledged that capitalist enterprise is incapable of providing collective goods like defence, parks and roads. In addition, governments contribute substantially to expenditure on things like education and health care which are not provided readily by profit-seeking enterprise. Secondly, governments make direct transfer payments to the socially disadvantaged - for example, the retired, the handicapped and the unemployed. Thirdly, governments assume some responsibility for the overall 'performance' of the economy, where performance is usually defined in concrete terms as the rate of growth of real gross national product per capita.

That contemporary western governments supplement private sector activity in these ways is reasonably obvious. However, the reasons behind, and the effect of, such government involvement are not at all obvious. Two major explanations for the multi-faceted role of the State are possible. Firstly, the State can be interpreted as a beneficent institution, performing the above tasks for the 'social good' and, in particular, for the socially disadvantaged. Alternatively, the State's behaviour can be interpreted as supporting profit-seeking enterprises, and thus acting in a way which favours the elite at the expense of the disadvantaged. The former argument is superficially appealing and has certainly had the greatest exposure.

Evan Jones is in the Department of Economics at the University of Sydney.

The ethic which underlies this expressed desire for a 'humane' capitalism is based on a modern version of the political philosophy of liberalism. When liberalism 'flowered' in the late eighteenth century, it was argued that government activity was detrimental to the satisfaction of individual material needs, as it impaired efficient production, equitable income determination and personal freedom. The uninhibited pursuit of one's livelihood through the capitalist institution of the market mechanism was seen as satisfying these desiderata.

The nineteenth century, however, provided overwhelming evidence that the market mechanism was eminently capable of producing inequality and inhibiting freedom. By 1900 most liberals had modified the original philosophy.² Twentieth-century liberalism is thus associated with the following postulate - capitalism is a desirable socio-economic system, subject to the existence of certain weaknesses. By the 1930s, the possibility of persistent large-scale unemployment in particular, was seen by liberals to be a flaw of no small magnitude. Unemployment, inequality, etc., were seen to be overcome by concerted action on the part of elected governments.

Governments, then, are seen by modern liberals to have a permanent beneficent role to play in modern capitalist societies. Their expected role is as described above - the provision of collective goods, the redistribution of income and wealth in a more egalitarian direction (at the very least towards wage/salary earners and against those receiving interest, dividends, etc), and the undertaking of sufficient spending to guarantee full employment. Government policy devoted to combating recessions could at the same time be used to further the significance of both collective goods and redistributive measures. J.M. Keynes, for example, saw the profit motive as incapable of sustaining stable capital investment and employment. The provision of collective goods would have to increasingly serve this function. In addition, Keynes was opposed to the private passive receipt of income from the ownership of wealth and supported government policies which would eventually eliminate the 'rentiers' at the same time as they contributed to stable economic growth.³

By 1945, in Great Britain and Australia at least, conservative as well as labor party platforms were supposed to be liberalist in the above sense. Treasuries, as the key department in the public service and the means by which economic policies are translated into programs, were also presumed to be liberalist and Keynesian in orientation. They had mended their ways after their conservative behaviour in the 1920s and 1930s. In a nutshell, beneficent government policies were presumed to have been responsible both for the post-war boom and for liberalising social welfare measures. At least, this is what we learned from the textbooks.

In reality, neither the British nor the Australian Treasury have been committed predominantly to the liberal philosophy outlined above. Both are deeply conservative institutions, due partly to their role as keeper of the public purse, and partly to their being staffed by individuals schooled in the dominant strand of economic thought which is still committed to the supreme efficacy of the market mechanism. In Australia, the combined effect of the Treasury's fiscal conservatism and the LCP coalition government in office for the 1950s and 1960s meant that expenditure on social welfare remained low⁴ and that expansionary spending usually took a back seat to the espoused higher priority of dealing with inflation.⁵

In the U.S.A., the so-called beneficent role of government appears even more unrealistic. Unlike Britain and Australia, U.S. governments did not even make a public commitment toward full employment policies and the progressive spending that it would entail. The relevant legislation was emasculated right from the start in the euphoria which followed the Allied war victory. Following the

"HANDOUTS WILL
ONLY DESTROY
YOUR INCENTIVE
TO WORK..."



R. COBB

conservative Eisenhower years, it was not until 1963 that a U.S. government accepted publically the Keynesian principle that it is the responsibility of government to stimulate the economy. Yet those forces who wanted to 'pump prime' the economy by public spending on schemes for the disadvantaged lost out to those forces seeking tax cuts for the corporate sector. Even though spending on social welfare increased during the Kennedy-Johnson administration in the boom period of the mid 1960s, the foundations for accepted government 'intervention' were clear - to act as a subsidising agency for private capital. Liberal Keynesianism in fact meant State Capitalism. By 1969, Richard Nixon could safely say "We are all Keynesians now", without fear of being labelled as a progressive politician.

It is significant here that what is typically interpreted as the manifestation of a reformist principle (i.e. a permanent government role in a capitalist economy) may de facto be a means by which conservative ruling class forces further their own advantage. Some government fiscal policies are clearly directly supportive of profit for capital-owners - for example, government procurement contracts (especially in military equipment); direct subsidies; corporate tax concessions; and the provision of specific infrastructure like roads, railways and ports (Australian State governments spend large sums on such infrastructure to benefit specific industries). In addition, however, government spending on areas in the 'enlightened' camp, like education and health care can also be plausibly interpreted as indirectly subsidising the needs of Capital. The private sector benefits from a healthy trained workforce, the costs of which have been borne by the community at large.⁶ The sheer existence of commitments to education, etc., does not automatically prove the successful functioning of a beneficent State.

From a liberalist perspective, the same contradiction exists for welfare spending in particular. When established historically by reformist liberal legislation, welfare spending has been used as an instrument of social control of

the disadvantaged and the poor, by means of the small size of payments involved and the onerous conditions attending such payments.⁷ In fact, many astute conservative politicians have seen from the beginning the repressive role which State-controlled welfare can play. To quote the Conservative politician A.J. Balfour (the man who later led the defeat of the British General Strike in 1926);

Social legislation is not only different from socialist legislation; it is its most direct opposite and effective antidote.⁸

Indeed, some welfare activity was designed consciously from its inception in order to guarantee a productive and subordinate working class. The profession of social worker, for example, was first developed, using idle upper class women as agents, to assist industrial wage-labourers mostly of rural origins to function in an unfamiliar urban environment. In circumstances like this, the claim and hope of a growing welfare state as a liberalising influence is merely rhetoric and serves an important role of hiding the hardships of the working class under industrial capitalism.

Turn-of-the-century conservatives expressed concern that the welfare state could abrogate the economic and social discipline of the lower classes. However, much spending on social welfare has been financed directly by the disadvantaged groups themselves, either in the form of contributory unemployment insurance as in the U.S. and U.K. or through regressive tax structures as in Australia. In addition, as the Henderson Report indicates (even with its restrictive criteria⁹) absolute poverty is still widespread, indicating that the size of payments for pensions, sickness, unemployment and workers' compensation has not put the disadvantaged in the lap of luxury. Poverty is also a relative phenomenon, and the recent booklet Australia Ripped-Off summarises the extent of wealth and income inequality in Australia.¹⁰ Any concern for the adverse effects of welfare measures on working class discipline may have been misplaced.

To return to the original issue: the amount and diversity of government involvement in western economies provides no necessary support for the thesis that liberalist hopes for beneficent government reform have been successfully instituted. On the contrary, much evidence exists to suggest that government activity is directed ultimately towards assisting the pursuit of profit.

Nevertheless, the interpretation of the meaning of spending on social welfare provides the greatest dilemma.¹¹ In spite of its limited scope and stringent conditions, few would deny that such spending is worse than no welfare spending at all. Given the option, liberals and radicals alike would argue for continued effort to expand the size and scope of welfare spending for the socially disadvantaged.

FRASER AND THE SOCIAL WAGE

Against this background, one can examine the behaviour of the Fraser government with respect to the broad areas of welfare spending since its election in December 1975.

Certainly, the conservative desire for social control is still present. It is manifest generally in the creation of a disciplinary Industrial Relations Bureau and increased spending on security organisations, police and prison services, totalling an estimated \$80 million for 1978-79.

This desire is also manifest in the increase in the bureaucratic apparatus to administer social security and the extraordinary additional conditions imposed

on those eligible to receive unemployment benefits. The Department of Social Security was the only Department to receive funds in the 1978-79 budget for additional staff. Apart from law enforcement agencies, this is the only expanding part of the entire bureaucracy, and it is expanding in the face of a public commitment to substantially reduce the size of the public sector. To quote from the 1978-79 Budget Paper:

A Review of the Department of Social Security concluded that there was a significant incidence of false claims being made by persons not eligible to receive benefits. The recommendations of the Review Team involved increasing staff, the number of Regional Offices and other resources available to the Department of Social Security in order to tighten up procedures, and are being implemented progressively. It is estimated that this will lead to savings of about \$100 million in 1978-79. The additional staff and other resources will cost \$6.7 million in 1978-79.¹²

No doubt there are abuses associated with dole payments, but the concerted effort of the Fraser government to reduce unemployment assistance by any means leads one to doubt the judgement of the Review Committee on the nature of 'abuse'. Changes in conditions of dole payment include the deferring of the first payment of benefits to two weeks in arrears instead of two weeks in advance; the non-indexation of payments to recipients without dependents; the pressure to take part-time jobs and/or jobs in far-off localities; and the recent preparation of a 12-page questionnaire requiring field officers to investigate all aspects of the recipient's living conditions and lifestyles.¹³

The more humane means of reducing unemployment assistance is, of course, to reduce the extent of unemployment. The harassment of the unemployed in their attempts to find either work or benefits, the inadequate level of benefits, and the rhetoric laying the blame on the individual, are all in the best tradition of social control begun in feudal times and developed in Victorian England.¹⁴

But much more is involved than the use of social welfare to serve conservative ends. There is a conscientious, systematic attempt to dismantle most of the institutions contributing to the areas constituting the 'social wage' which were expanded or newly established during the years of the Whitlam government. In particular, in 1974-75, expenditure was increased substantially on education, social security, urban and regional development, and culture and recreation. In 1975-76, expenditure was increased substantially on health (medibank) and again on the social security category.¹⁵

No coherent explanation has been offered by observers for the reasons behind this comprehensive dismantling process. It is true that actual spending on the social wage remains high compared to the pre-Whitlam years. Like previous conservative governments coming to office after social-democratic governments, the Fraser government labours under the 'ratchet' effect. The fear of electoral damage limits the rate at which previously established programs can be dismantled. Nevertheless, the present government is undertaking a dismantling process at a staggering rate, especially in regard to the health area.

It could be that key members of the Fraser cabinet possess a purist ideology regarding the effects of government activity on capitalist enterprise. Some of their public announcements would tend to support this notion. However, the increased subsidisation of the corporate sector from general revenue indicates that one cannot take seriously the imputation of a purist ideology to the Fraser Cabinet. It makes



more sense to ascribe the onslaught on welfare spending to two factors. Firstly, it forms part of a conscious attempt to redistribute national income and wealth in a non-egalitarian direction. Secondly, (and especially in the size of the reductions), it is a pragmatic response to the impact of the current crisis on the budgetary process. The Whitlam government program needed continuing economic growth to pay the cost without having to attempt politically dangerous redistributive measures. Now, for the present government, there is the conscious desire to support the needs of Capital, but also the need to plug the yawning deficit, the causes of which it is probably reasonable to say are not well understood by the Fraser government.

In a nutshell, the Fraser government has taken pains to ensure that the wage-earner bears the burden of the present crisis. On the one hand, there is the concerted effort to reduce the average take-home wage. On the other hand, there is the attempt to reduce the social wage, the transfer payments and certain public goods the extent of which are directly under government control.

In what follows, a general examination of the attack on the social wage is attempted. In addition, comment is made on some of the specific changes which have been effected.

CUTS IN THE SOCIAL WAGE: THE BROAD AGGREGATES

In this section, the broad areas of spending included in the social wage are outlined and the changes in spending on each category in the three annual budgets of the Fraser government. An attempt is made to adjust for the effect of inflation and to estimate the decrease in the real value of the social wage in that period.

Such a procedure has its drawbacks. Firstly, the delineation of which areas of government spending count as part of the social wage and which areas do not, is ultimately an arbitrary one. In this account, the social wage is taken to constitute that expenditure on the broad categories of education, health, social security and welfare, housing, urban and regional development, and culture and recreation. Two adjustments are made to the broad aggregates - the expenditure on unemployment benefits has not been included in the total expenditure on social security. Although unemployment benefits are clearly an important part of the social wage, the burgeoning total payout (well over \$1 billion this financial year) can hardly be said to be positively related to a desirable social order. In addition, expenditure on trade union, apprenticeship and employment training schemes is also included in

the definition.

Secondly, there is an implicit assumption that monetary expenditure is positively related to social benefits - that more expenditure leads to greater social well-being. There are obviously problems with this assumption. Some public expenditure goes in wages to public servants who administer programs. For example, there have been complaints that expenditure on programs for the aboriginal community were being 'eaten up' in this way. Other expenditure becomes the income of private contractors, especially in construction work and contemporary employment training schemes. Much expenditure on health care goes straight into the pockets of the outrageously affluent medical profession and increasingly also into the books of the medical equipment and pharmaceutical industries. It is true that further increases in expenditure under Labor's Medibank program could only be seen as socially desirable if the fee-fixing power of the medical profession had been checked. But Fraser's latest measures established in the 1978-79 Budget are not designed to maintain the quality of health care while reducing expenditure for greater 'efficiency'. On the contrary, the changes were wrought for reasons other than efficiency - to reduce the consumer price index by eliminating the medibank levy; to continue support for the large health insurance funds; and the refusal to tackle head-on the medical profession regarding salaries and usage. Expenditure on medical benefits will actually increase substantially for this financial year, after the previous cuts. Because the Fraser government has presided over changes in the health program that combine both a net decrease in total spending and a qualitative deterioration in the nature of health care, it is assumed that the change in the former gives some reasonable indication of the change in the latter. This is obviously a first approximation, but any improvement requires a comprehensive and specific examination of recent changes in the health program and their effects.

Thirdly, there is an obvious weakness in discussing the social wage in the aggregate. Different income groups may benefit disproportionately from public expenditure. Some little work has been done on this question in the U.K. which indicates that middle income earners benefit disproportionately in the allocation of the social wage.¹⁶ No work of this nature is readily available on Australian public expenditure. Some authors, however, claim that public documents indicate the Whitlam Government's conscious intention to benefit disproportionately middle-income earners in its program.¹⁷ Ultimately, a thorough analysis of the social wage requires an understanding of the structure of its distribution, analogous to an examination of wage and salary inequality.

Granted the above problems, there is still merit in examining public expenditure on social goods at the aggregate level as a necessary first step towards understanding the detailed allocation of the social wage. Certainly, the substantial aggregate reductions in the last three years warrant more exposure than they have received.

In Table 1, the broad areas through which the social wage is achieved are listed. In the first column are the sums spent in these areas in 1975-76, the last budget of the Labor Government.¹⁸ Columns 2, 5 and 8 give the actual (and estimated) spending in the last three budget allocations. Columns 3, 6 and 9 give the spending at 1975-76 levels multiplied by the change in the consumer price index (C.P.I.).¹⁹ Columns 4, 7 and 10 show the differences between actual (estimated for 1978-79) spending and that needed to maintain spending at real 1975-76 levels, as indexed by the C.P.I. 'Plus' figures show that expenditures have increased in real terms. 'Minus' figures show that expenditures have decreased in real terms.

Table 1 indicates that real expenditure has been maintained on education and on social security. Expenditure has been decreased in all other areas, and most notably

TABLE 1

	1975-76		1976-77		1977-78			1978-79		
	Actual	Actual	x 114.4	Diff.	Actual	x 125.0	Diff.	Actual	x 134.7	Diff.
Education	1846	2160	2112	+ 48	2355	2307	+ 48	2498	2487	+ 11
Health	2953	2543	3378	-835	2698	3691	-993	2913	3978	-1065
Social Security ^a	5145 ^b	5767	5886	-119	6663	6431	+232	7238	6930	+308
Housing	562	549	643	- 94	507	703	-196	363	757	-394
Urban & Regional Development	408	251	467	-216	153	510	-357	108	550	-442
Culture & Recreation	253	257	289	- 32	261	326	- 65	284	341	- 57
Total	11167	11527	12775	-1248	12637	13968	-1331	13404	15043	-1639

TABLE 2

	1975-76		1976-77		1977-78			1978-79		
	Actual	Actual	÷ 114.4	Diff.	Actual	÷ 125.0	Diff.	Actual	÷ 134.7	Diff.
Education	1846	2160	1888	+ 42	2355	1884	+ 38	2498	1854	+ 8
Health	2953	2543	2223	-730	2698	2158	-795	2913	2163	-790
Social Security ^a	5145 ^b	5767	5941	-104	6663	5330	+185	7238	5373	+228
Housing	562	549	480	- 82	507	406	-156	363	269	-293
Urban & Regional Development	408	251	219	-189	153	122	-286	108	80	-328
Culture & Recreation	253	257	225	- 28	261	209	- 44	284	211	- 42
Total	11167	11527	10076	-1091	12637	10109	-1058	13404	9950	-1217

a. The original totals have been amended thus: unemployment relief has been subtracted; employment training schemes have been added.

b. See note 14.

in the health area. The total reduction in real expenditure amounts to approximately \$1.2 billion, \$1.3 billion and an estimated \$1.6 billion for the three successive years. From June 1976 to June 1979, real expenditure on the social wage as presently defined will have been reduced by a cumulative total of \$4.2 billion.

The above figures represent conservative estimates. Other feasible means of estimating the change in real expenditure (by using other indexes) indicate even greater reductions in real expenditure.²⁰ Moreover, no account has been taken here of the further reduction in per capita benefits, due to population growth.

Alternatively, one can deflate the figures for the Fraser budgets by the relevant C.P.I. to obtain figures in 1975-76 dollars which can be compared with the actual spending of the 1975-76 budget. Table 2 shows the results. This table shows much the same story for the categories of expenditure. In total, the 1976-77 budget spending on the chosen categories was down \$1 billion in 1975-76 dollars, or by almost 10%. Similarly for the 1977-78 budget. For 1978-79, estimated spending was down \$1,200 million in 1975-76 dollars, or by almost 11%.

The reductions in spending on the social wage are by no means completed. Advance decisions made in the May 1979 mini-budget indicate that the 1979-80 budget will result in further reductions. An additional \$1300 million will be pared from federal government spending, much of it from the area of the social wage. The mini-budget showed another retreat in the health area, and the education budget was cut in real terms for the first time. Defence was the only area to receive a real increase in funds.

The May decisions were actually less partisan than we have come to expect from the Fraser government. Some rural perks will be hit and the corporate tax concession in the form of a trading stock valuation adjustment has also been abolished. The failure to come to terms with basic problems in the economy has led to revision of priorities even partly away from the corporate sector towards the reduction of the booming deficit. Nevertheless, there are still strong pressures within the government and Treasury to concentrate further reductions in spending on the social welfare area.²¹

One can gain further insight into the reduction of spending on the given categories by examining the changes in the proportion which such expenditure bears to total public expenditure. After adjustment for unemployment benefits, this proportion declined steadily from 51.9% in 1975-76 to 47.4% in 1978-79. This latter proportion is still substantially above that prevailing even during the early 1970s, indicating the strength of the 'ratchet' effect on conservative governments attempting to emasculate inherited social programs.

Nevertheless, this 4.5% reduction in the social wage proportion of total spending amounts to approximately \$1,260 million in current 1978-79 dollars. Compare this figure with the total figure in column 10 of Table 1. The estimated 1978-79 spending on the total wage represents a real reduction of \$1,640 million from the level of 1975-76. The reduction in real spending can thus be split into two parts - that due to a proportionate effect of a real reduction in total public expenditure; and a larger part due to the reduction in the relative importance of the social wage in the budget allocations of the Fraser government.

By extrapolating the 1975-76 spending levels for each category of social expenditure, column 9 shows the maintenance not only of total spending but of the same proportional allocation between categories as in 1975-76. This exercise does not imply that such proportionality ought to be maintained - to do so would be

absurd. Rather, it does show the total funds which would be available for reallocation across the various categories if the proportion of social wage spending to total spending remained the same. The figures in the previous paragraph indicate that the reduction in real spending on the social wage is clearly due to the Fraser government having different spending priorities than did the Whitlam government. Possible spending on the social wage is now going to other areas.

SPECIFIC CHANGES IN SPENDING PRIORITIES

So much for crude totals. It is desirable to highlight some specific details of important cuts in government spending. In general actual spending in the social welfare areas often turns out to be less than the estimates in the official budget estimates.²² Nobody expects that government spending can keep exactly to the forecast, but it is apparent that the present government feels no obligation to adhere to its publicised commitments in these areas. The only area where spending consistently outperforms the estimates is on unemployment relief. Every year, an absurdly small estimate is put on unemployment relief payments. In spite of the various attempts to keep down unemployment payments, each year they increase by \$150 to \$200 million. This year payments will certainly exceed \$1 billion. In many respects, budget documents are increasingly becoming public relations exercises for the present government. The Treasurer's budget speech in 1978-79 was replete with much self-congratulatory phrases but it was impossible to find, for example, a statement indicating the estimated loss to revenue of the move to half-indexation of personal income tax. In addition, some estimates mask the resulting change in spending, as in aboriginal welfare. Unemployment estimates seem designed to hide the real size of the impending budget deficit and to remove unemployment by wishful thinking.

(a) Education

Every year for the last three years, proportionately more aid has gone to non-government private schools than to government schools in the States. Senator Carrick's public statement indicate that this aid is going not only to parochial catholic schools but also private schools, serving children of the affluent members of our society. For government schools, for 1975-76 to 1978-79, spending has gone from \$300 million to an estimated \$372 million, an increase of 24%. For non-government schools, spending has gone from \$152 million to an estimated \$254 million, an increase of 67%. The May 1979 speech indicates that this redistribution of funds will continue in 1979-80, although pressure from the Opposition and the Teachers' Federation has led to the deferral of plans for increased subsidisation of the affluent private schools.

Spending on migrant and aboriginal education was cut in half in Fraser's first budget. Migrant projects were cut from \$21 million to \$11 million, and aboriginal projects from \$41 million to \$20 million (estimates were much higher than actual spending). Though spending on these special groups has since increased, it is still not up to the levels established in 1975-76.

Plans for 1979-80 include the elimination of new capital projects for universities, colleges of advanced education and schools. Some of the funds saved from these sources will go to the expansion of technical institutions, indicating increased emphasis on vocational training. Reduced real commitment to recurrent expenses is leading to increased emphasis on temporary and part-time appointments. There is sufficient evidence already that such changes involve increased political control over the nature of appointments and the content of syllabuses.

(b) Health

Standard Medibank has been abolished. Basic medical care is now removed from the public sector, except for a present payment of 40% of scheduled fees. This subsidy is also due for elimination in 1979-80. Individuals can remain under the old system if they can convince their doctors to classify them as 'socially disadvantaged'. This 'disadvantaged' benefit is paid on only about 3% of all medical services.

43% of the population, once paying the standard medibank levy, face the prospect of more expensive insurance with the private funds or no insurance at all. The latter increases inconvenience, out-of-pocket expenses, and will discourage preventative medical treatment. There is evidence that a substantial percentage of families have chosen not to have private insurance.²³ The decision is understandable, given that average contributions for families now range between \$400 and \$500 a year. Ironically, many families with incomes which are low or below the poverty line remain in private funds, paying record percentages (by international standards) of their incomes for health insurance. The consequence is that the healthy make little contribution towards health care for the sick, and insured families face a further rise in contributions with the expected rise in doctors' salaries. Chronically ill individuals face the prospect of being denied any coverage at all by medical insurance.

Even with the changes, medical benefits and hospital payments will cost the government \$1700 million in 1978-79, up \$500 million from 1977-78. The May mini-budget included proposals to curtail hospital expenditure and raise the cost per day to patients, but these plans are currently being reviewed.²⁴

Expenditure on health remains the most bizarre of all the areas in the social welfare range. Under the present arrangements, a rise in expenditure in the health area may have very little to do with an improvement in care. Rather, it may mean an expansion in the incomes of privileged groups - the medical profession, the medical equipment industry and the pharmaceutical industry. It may also mean an unproductive use of resources in the duplication of facilities among competing hospitals and the multiplication of superfluous surgery. Neither the Whitlam nor the Fraser government has been able to confront successfully the vested interests which dominate the health care industry.

Community health facilities expenditure, up in the first Fraser budget, has been cut by \$20 million in real terms in the 1978-79 budget. These facilities are essential for adequate health care for low income earners. The nursing home network receives increasing subsidies, now up to \$270 million, increasingly for the benefit of private owners. There is no evidence that this increased subsidy increases the quality of health care in nursing homes.

Pharmaceutical benefits expenditure has only just returned to the level of \$307 million in the 1975-76 budget, and is down over \$100 million in real terms. In this time, the government has increased the price payable by the individual, decreased the list of drugs on which benefits are payable, and increased the return to the drug companies who claim to be earning low profits!

(c) Social Security and Welfare

This is the only area of social expenditure in which government expenditure has kept ahead of the rise in the cost of living. Pensions, handicapped assistance, single parent assistance, etc., have in general been maintained or increased in real value.

However, in its first budget the government began to cut back and adopt petty restrictions even in this area. For those aged over 70, pensions ceased to be price-indexed, and family allowances will be paid on a monthly basis rather than a weekly basis, increasing hardship.

Unemployment benefits continue to receive ruthless attention. Benefits paid to people without dependants cease to be indexed, and yet a new round of efforts is being made to withhold payments to more people. More policing staff are to be hired in order to 'save' \$100 million.

(d) Housing, Regional Development etc.

There is a marked lack of commitment to the housing industry and to public housing. Real spending in the housing category has dropped 50% since 1975-76. In addition, there has been a complete emasculation of Labor's contribution to the development of impoverished areas in the city and country. Spending for land acquisition has been slashed. An inquiry has been established into housing costs, but one has little confidence that the inquiry involves anything more than window-dressing. Certainly it is not in the interests of the present government to confront the substantive issue of land and housing speculation.

Protection of the environment receives only token funds. There is no long-term commitment to this area.

(e) Culture and Recreation

There has been what is now a well-publicised strangling of the ABC networks, forcing the constant reduction of staff, with the intent of ensuring a more stable conservative political bias from the public media.

The present government does not even show an interest in youth, sports and recreation. This area has received a 50% real cut in funds since the \$11.5 million of 1975-76. It is not surprising that the performance of Australian representatives at the Olympic games is uninspiring.

(f) The Aboriginal Community

Finally, as an example of the treatment of special groups, it is instructive to draw together the changes in commitments to various programs for the aboriginal community. The aboriginal community has fared badly in the last three budgets, making somewhat hypocritical the present Prime Minister's public pronouncements that he governs for all Australians. For example:

- Education: estimated \$27 million spending in 1978-79 budget; \$55 million would maintain real value from 1975-76. Down 50% in real terms.

- Health: estimated \$20 million in the last budget; \$28 million would maintain real value from 1975-76. Down 29% in real terms.

- Advancement programs: estimated \$40 million in last budget; \$58 would maintain value from 1975-76. Down 31% in real terms.

- Housing: estimated \$40 million in last budget; \$58 million would maintain value from 1975-76. Down 31% in real terms.

- Development of community amenities: estimated \$1.4 million in last budget; \$18 million is needed to maintain real spending from 1975-76. Down 92% in real terms.

CHANGES IN TAXATION

The above treatment has dealt with changes on the outlay side of the budget. It is desirable to mention relevant changes on the side of receipts - in particular changes which alter revenue coming from personal income tax and indirect taxes. The major relevant changes are summarised below:²⁵

1976-77

Indexation of personal income tax	- \$ 990 m.
Medibank levy	+ \$ 250 m.
Net	- \$ 740 m.

1977-78

Indexation of personal income tax	- \$ 990 m.
February 1978 rate scale reform	- \$ 400 m.
Medibank levy	+ \$ 260 m.
Excise duty on oil and petroleum	+ \$ 180 m.
Net	- \$ 930 m.

1978-79 Estimates

November 1978 income tax surcharge	+ \$ 570 m.
Half-indexation of personal income tax) February 1978 rate scale reform)	- \$ 770 m.
Medibank levy	+ \$ 70 m.
Net impact of changes in excise duty, import duty and sales tax	+ \$1030 m.
Net	+ \$ 900 m.

1979-80 Estimates

Continuation of income tax surcharge) Non-indexation of personal income) (both to November 1979)	+ \$ 560 m.
Net	+ \$ 560 m.

The overall impact of these major changes to the taxation of wage and salary earners is an estimated net reduction in total taxation of about \$200 million. If the simplistic assumption were made that the distributive impact of the net tax cuts was similar to that of the cuts in expenditure, it could be concluded that some of the reduction in social expenditure in the first two years were compensated by tax cuts. Nevertheless, even in aggregate terms, the tax cuts offer only a partial compensation. In addition, the severity of the 1978-79 budget becomes apparent by comparison. Substantial cuts in social expenditure were complemented by draconian increases in indirect taxes.

Moreover, there does exist evidence that the combined effect of tax indexation, the February 1978 rate scale reform (sic) and the November 1978 Temporary (sic) tax surcharge involved a severely regressive alteration in the rate scales. In two separate steps, the Fraser government achieved an inequalitarian redistribution

of income which would have been a political bombshell if tried in one step. More sophisticated work needs to be done in determining the distributive impact of public sector outlays and receipts. This is a matter of vital concern in assessing the changes in the level and real cost of the social wage to each income group. Nevertheless, for present purposes, two things are readily apparent. At the aggregate level, the net reduction in wage/salary related taxes is trivial compared to the reductions in real spending on the social wage. At the distributive level, the impact is firmly inegalitarian. Those on low wages now pay relatively more and get relatively less from the public sector.

CONCLUSION

There is a touch of irony about the sizeable and growing budget deficits for a government ideologically committed to fiscal 'responsibility'. The Fraser government is faced with inadequate income tax revenue due to an economy in low gear. On the other hand, it is faced with the necessity to subsidise the needs of Capital in a multitude of ways; to outlay unemployment benefits now exceeding \$1 billion per annum; and to finance interest on public debt to the tune of \$2 billion per annum. Even without the desire to redistribute national income towards the wealthy, an attack on the social wage becomes inevitable in the present conditions of an economic crisis. The August 1979 budget will be in the same vein. This time, education appears to be the most likely area for drastic spending cuts, and the conditions for unemployment benefits will be further tightened.

The question is how far the Fraser government can persist in this direction and remain electorally viable. The answer depends on the success of the socialisation process and the maintenance of false consciousness. No government can continue to respond passively to the current malaise without conceiving a fiscal crisis. Progressive governments seek to take over the reins of economic organisation and planning. Conservative governments seek to further subvert the power of the wage earner through social control.

Australians have been generally socialised into a view hostile to social progress. Various myths are not really questioned by many Australian people - the 'dole bludger' myth; the 'unions are holding the country to ransom' myth; the 'unemployment is due to high wages' myth; and so on. It is entirely possible that cuts in the social wage still have a long way to go before the present 'democratically elected' government faces any threat to political supremacy.



FOOTNOTES

- 1 There are various means of classifying government expenditures. Marxist economists, in particular, have attempted this task in order to examine the paradoxical nature of the expanded role of the State in modern capitalist economics. See, for example, S. Rose, "On Classifying State Expenditure", Review of Radical Political Economics, 9, 4, Winter 1977.
- 2 People who still subscribe to the original 'Classical' form of liberalism are now called libertarians. Libertarians (Milton Friedman, for example), continue to have complete faith in the efficacy of market mechanism capitalism. Their arguments are used to criticise the reforming policies of western governments, such as the control of prices and wages. In Australia, the Centre for Independent Studies provides a focal point for this purist philosophy.
- 3 J.M. Keynes, The General Theory of Employment, Interest and Money, 1936, especially the final chapter.
- 4 This fact is readily ascertained by a perusal of annual figures on Federal government budget outlays summarised in Table 1 at the rear of Budget Paper No. 1 for any year. Budget Papers for the early 1970s, for example, show figures for the 1960s.
- 5 See M. Artis & R.H. Wallace, "A Historical Survey of Australian Fiscal Policy 1945-66", in N. Runcie (Ed), Australian Monetary and Fiscal Policy, 1971, Ch.19.
- 6 This interpretation is supported by the Fraser government's attempts to have the impact of medical care costs on the C.P.I. disallowed as a reason for money wage increases through the Arbitration Commission hearings. Evidently, the intention is to have the wage-earning class foot the bill for the rapidly increasing cost of medical care.
- 7 Winton Higgins gives an account of the perversion of the liberal aims of welfare spending in "A Working Paper on the Welfare State", Arena, No. 40, 1975.
- 8 Quoted in Higgins, op.cit., p. 42.
- 9 See J. Collins and B. Boughton, "Capitalism and Poverty: A Critique of the Henderson Report", Intervention 7, October 1976.
- 10 Ted Wilshire and others, Australia Ripped-Off, Amalgamated Metal-Workers and Shipwrights Union, March 1979.
- 11 I. Gough deals more thoroughly with this dilemma in "The Political Economy of the Welfare State", Selected Papers from the first Australian Political Economy Conference, 1976.
- 12 Budget Paper 1978-79, No. 1, p.74.
- 13 Judith Hoare, "Prune the Dole Strategy", Australian Financial Review, June 27, 1979.
- 14 See F. Piven & R. Cloward, Regulating the Poor, Tavistock, 1972.
- 15 Note that the 1975-76 budget had an adverse effect for other reasons, notably the rise in indirect taxes.

- 16 J. Le Grand, "Who Benefits from Public Expenditure?", New Society, 21 September 1978. Le Grand claims that the disproportionate benefit of middle-income earners is an unintended outcome. This is speculation. It is possible that this effect is the intended outcome of the electoral desire to please middle-income swinging voters. If this is the case in Australia, Fraser's existing strategy may backfire. A realisation of this possibility is manifest in the current aversion of the Fraser government to reintroducing fees for university tuition.
- 17 See B. Catley & B. McFarlane, "Technocratic Laborism - The Whitlam Government", in E. Wheelwright & K. Buckley, Essays in the Political Economy of Australian Capitalism, Vol. 1, A.N.Z., 1975.
- 18 Several adjustments are made. The Fraser government abolished tax rebates for dependent children in the 1976-77 budget. This resulted in a revenue saving of \$540 million. A similar figure has been added to the 1975-76 figure for Social Security to make the figures comparable across years. In addition, expenditure on unemployment relief has been deducted from the total figure under Social Security category, for the reasons given in the text. Finally, spending on apprenticeship and employment training schemes has been added to the same category for convenience.
- 19 The consumer price index figures used are for December to December, the mid-point of each financial year. The respective figures for the three years are 114.4, 125.0 and 134.7. These figures can be obtained from the Australian Bureau of Statistics bulletin, Consumer Price Index, No. 6401.0.
- 20 There is no definite reason why expenditure should have been indexed by the C.P.I. rather than by an alternative index, for example, some composite of the implicit price deflators for government consumption and capital expenditure. However, these deflators are slightly higher than the C.P.I. for the period, and the use of such an index would merely have compounded the estimated reduction in real expenditure. Alternatively, one could separate the C.P.I. in two slightly disaggregated indexes - one for the component of health care, and another for all other components. As the medical care component index increased rapidly during the period, the effect of this disaggregation is to increase substantially the total estimated reduction in real expenditure.
- 21 John Short, "Libs Urge Fraser to Sharpen Axe", Australian Financial Review, May 31, 1979.
- 22 This can be checked by comparing the estimates in a particular budget paper with the actual spending recorded in the budget paper for the following year.
- 23 Meryl Constance, "The Message: Drop Health Insurance", National Times, June 2, 1979; Robin Bromby, "The Health Scheme Mess", National Times, June 16, 1979.
- 24 Robin Bromby, "Dogfight on Hospital Costs Wreck Chances for Reform", National Times, July 7, 1979.
- 25 The figures for the tax changes are obtained from the Treasurer's speech for the various years, or from the detail in the budget paper. See especially the opening table in Statement No. 4 - Estimates of Receipts, of the Budget paper for any year.
- 26 See Alternative Budget Speech, August 22 1978, W. Hayden. The relevant figures are summarised in an accessible form in the recent metal-workers' publication Australia Ripped-Off, p. 25.

Copyright of Full Text rests with the original copyright owner and, except as permitted under the Copyright Act 1968, copying this copyright material is prohibited without the permission of the owner or its exclusive licensee or agent or by way of a license from Copyright Agency Limited. For information about such licences contact Copyright Agency Limited on (02) 93947600 (ph) or (02) 93947601 (fax)