



Howard's Way

SOCIAL WELFARE

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Any comments on the Howard Government policies must begin with both a disclaimer and some fairly general observations. The disclaimer is that the direction of the new Government is still taking shape - in part because it is still early in this term and also because some of the policies are being formed in the context of the Budget process. This account is therefore based on a mix of existing policy, early initiatives, available information and personal judgements.

There are three general observations on the directions as they appear so far. First, the directions of the new Government can be thought of in two ways. There are those areas where their major impacts can be seen as acts of omission rather than commission. These are failures (or decisions) not to address major areas in which public policy initiatives are needed, or failures to consider the role of government in ameliorating the social impacts of various changes. The others are the acts of commission - explicit changes to policy that will significantly affect social policies and programs.

The second general observation is that there is a clear continuity in many of the policy directions between the new Government and the previous Labor Government. Many of these were criticised by social analysts and practitioners then, and current concerns are not new. At the same time, there are some important shifts in the way that these are being carried forward. Usually Labor reforms placed some importance on balancing the (generally) market objectives being sought with some amelioration of the social impacts. This created a space for a debate over the nature of these impacts and the regulation, compensation or balancing which might accompany it. So far it has been very hard to engage in this way

with the new Government, and its understanding of what rights should be protected is potentially quite different.

The third general observation is that the reform agenda is dominated in an unparalleled way by two objectives. The most obvious is the massive expenditure reduction being pursued. This seems not to be driven by any immediate economic imperatives, but by a fundamental commitment to very low levels of public expenditure by any international standards. The other priority shaping the changes - and one which is particularly relevant to social policy - is a radical pursuit of changed roles and responsibilities between the Commonwealth and the States. While this was a Labor initiative through the Council of Australian Government (COAG) process, the potential for checks and balances which existed under Labor seems to have been entirely lost in deference to the pursuit of State rights and a *laissez faire* attitude to national standards. The initiative taken over the gun control debate is the only significant aberration on this score.

Three, somewhat eclectic, policy areas illustrate some of these trends - the future of work and incomes, the role played by COAG in policy changes to community services, and the specific changes being considered in social housing assistance.

Work and Income

It could well be argued - and was argued at a recent national conference on the Future of Work organised by ACOSS and the Brotherhood of St Laurence - that this is *the* public policy priority at the end of this century and as we enter the next millennium. Changes in income inequality, participation in paid and unpaid work and the nature of market incomes all come together around this theme. The trends are clear and require equally clear responses:

- Income inequality is growing and is likely to continue to grow. So far in Australia this has been led by growing inequality in market incomes and ameliorated to some extent by income transfers. It has also been affected by changed household composition.

- Access to paid work has been radically restructured in ways which partly respond to previous serious gender injustice, but also in ways which have created severe stresses around the uses of time, caring, and access to adequate paid work. The restructuring has taken place around periods of the life cycle, household type, and the nature and extent of unemployment. The latter - particularly long-term unemployment - has been the most obvious and devastating restructure.
- Market incomes have become more unequal, mostly structured around skill levels and the growing casualisation of employment.

The major challenges, therefore, are:

- to use income distribution systems more flexibly to maintain adequate incomes across various forms of participation in paid and unpaid work - what Bettina Cass has described as a more cohesive, seamless income transfer system based on the principle of a 'participation income';
- to ensure that unemployed people (particularly long-term unemployed) are not locked out of the labour market - this requires substantial and ongoing investment in labour market programs;
- to ensure that labour market flexibility does not lead to greater casualisation;
- to ensure that we do not create an increasing low wage sector. This will require the maintenance of effective award minima. This is also particularly crucial because, as Cass has pointed out, the principle of 'less eligibility' on which our income support system is based, means that as market wages fall, so too must income support. If this occurs our previous ability to ameliorate wage inequality will collapse.

The previous Labor Government had begun to consider reform of income support which could potentially encompass participation income; it had significantly increased investment in labour market programs through *Working Nation*. It had, however, done very little to protect against casualisation, and while it maintained award minima, it created the conditions for greater wage inequality through enterprise bargaining.

The Howard Government has not made clear a comprehensive approach to income support, but its initiatives so far are all directed to reducing eligibility rather than making it more flexible. Labour market programs are certain to be one of the major casualties of the budget. And the new industrial relations legislation seems certain to open the door far wider to a low wage sector.

COAG and Community Services

The changes to community services more generally are some of the most obvious candidates for the expenditure cuts. While there are a number of suggestions, the real results will not be known until the August Budget.

At the same time, community services are also the prime candidates for broader reforms of service provision driven largely through both COAG and through the review of charities undertaken by the Industry Commission. Both of these are Labor initiatives. Again, however, the impact of these may be more extreme due to the expenditure reduction imperative and the reluctance to establish strong national infrastructure, planning and standards for services devolved to the States.

Briefly, the key elements of the directions charted by COAG and the Industry Commission are:

- competitive tendering for services;
- a focus on consumer choice - possibly through more direct funding of consumers;
- in the case of complex services such as complex health care, budget pooling and purchase of services by 'budget holders'.

The main result is that direct funding for services will be removed and, instead they will compete for customers (often against private for-profit providers). The risks are that there will be little response in the most difficult and costly service areas; and the more responsive aspects of service provision - including developmental or participatory services - will be lost. Market choice is likely to be a poor substitute.

Reform of Housing Assistance

Many of these tendencies are illustrated in the reform of housing assistance currently underway. This is the most significant reform of an area of social expenditure so far, and is likely to be the model adopted for other service areas such as child care. The reform is currently being touted by its architects as the most significant administrative reform since higher education was transferred to the Commonwealth Government.

Certainly the amounts involved are substantial. Taking current capital grants, rent assistance and rent rebates into account the subsidies currently being rearranged between the Commonwealth and the States total more than \$4 billion a year. The other remarkable aspect of these changes is that the redistribution of responsibility for providing subsidies is from the States to the Commonwealth.

But most important, while the reforms are formally all to do with a reorganisation of roles and responsibilities, and the transfer of costs to undertake these responsibilities is intended to be neutral (there will be no cost shifting), the underlying objective is a profound change in national policy on housing assistance. Although the quantum is still being determined, the general effects are:

- a major shift in subsidies from public housing to assisting tenants in the private rental market;
- a dramatic winding back of public provision of housing with the likely end of new public housing acquisitions.

Again, these reforms were initiated by the previous Labor Government. But the current proposals before COAG and endorsed by Cabinet seem likely to have a far more devastating effect on social housing, without any of the adequacy measures, planning and evaluation proposed previously. Equally, it will be without any of the complementary urban initiatives such as the Building Better Cities Program of the previous government and one of the casualties announced by the Coalition before the election.

In summary, the reforms are:

- The States will take all responsibility for housing services. The responsibility for housing affordability will rest solely with the Commonwealth.
- The capital grants which have played a role in funding social housing for most of the 50 years history of the Commonwealth State Housing Agreement (CSHA) will end.
- All responsibilities for rental housing subsidies will be transferred to the Commonwealth. These will be delivered through the income support system as a wider and enhanced form of the rent assistance currently available to pensioners and beneficiaries. These will now also be available to eligible public housing tenants. Public housing tenants will then pay full market rents, rather than the 18 - 25 per cent of income currently paid to state housing authorities. One of the immediate problems this poses is the lack of coverage of many low income households who currently receive rebated rents in public housing but are not eligible for social security payments - these include the working poor without children and many young people.
- The funds to meet the cost of the subsidies currently paid by the States - including the implicit subsidies involved in not actually charging tenants full market rents - will be transferred to the Commonwealth by reducing Financial Assistance Grants (FAGs) to the States. The result is that an amount roughly equal to existing capital grants will now be available to increase subsidies to rent assistance recipients in the private market.
- State Treasuries will recoup the FAGs reductions by charging State housing authorities a rate of return on their assets, equal to these reductions. This will have two effects. First it will fully commercialise State housing authorities, but it will also mean that their only source of capital will be borrowings or private investment, funded through the rents subsidy stream paid by the Commonwealth. The adequacy of this subsidy will then become crucial, both to the tenants and to the housing authorities wishing to continue to continue to supply rental housing.
- However, it is intended that subsidies will be equalised between public and private renters (the cost of subsidising public housing is

currently considerably greater than that paid to private tenants through rent assistance). This is expected to eliminate most current demand for public housing. As a result, it will be possible to reduce public housing stock levels, rather than expand them. It is hoped that a form of the CSHA can be retained to ensure that sufficient public housing is maintained to address extreme market failure - such as housing for low income older people, sole parents, Aboriginal people or people with disabilities.

As far as can be determined at the moment, the proposed rental subsidies and FAGs adjustments are such that the subsidies available to tenants will not be able to meet accepted benchmarks of adequacy. This may be partly due to a proposal to fund future commitments out of current transfers from the States rather than devoting all resources to increasing subsidies. It is unclear whether the pre-election commitment to ensure that public tenants pay no more than 25 per cent of income in rent will be retained. Clearly it cannot be met if subsidy equalisation is taken seriously.

Equally, it seems that State housing authorities (or community providers) will be able to finance further investment through gearing or private investment since the return on such housing is less than the normal market return on capital. Without access to tax incentives, this is unlikely to change. Of course, the same is true of direct private investment in rental housing, even at the median rents potentially affordable with increased subsidies. Except at the top end of the market, investment in rental housing has always been extremely limited and idiosyncratic. The new policy completely ignores any interventions to ensure that increased investment in the private market is forthcoming to meet the expected transfer of demand from public to private rental housing.

Equally, there is no consideration of the impact of public rental housing on the housing market more generally; such as its role in dampening cycles in the building industry with the effect of holding down cost pressures which would otherwise flow through into all sections of the market.

Perhaps most worrying, there is no consideration of the need for housing security, for accessible housing in appropriate locations or for responsive management. On the contrary, the likely impact of the reforms is that public housing and affordable rental housing will again be restricted to the outer rings of metropolitan centres, with the kind of social impacts which public housing and urban planners are only now trying to overcome.

These reforms reflect all the features of the social policy changes taking shape under the new Government - the changes to roles and responsibilities, the marketisation of support, the failure to compensate for a wide range of impacts, and the limitations of budget imperatives. On the back of Labor initiatives, we are about to see the virtual elimination of any significant public role in a service as central to well-being as the provision of low cost housing in Australia.

