

26 February 2003

Ms Christine McDonald  
Acting Secretary  
Community Affairs Committee  
Parliament House  
CANBERRA ACT 2600



Dear Ms McDonald,

Thankyou for your letter of November 15, 2002 inviting The Australia Institute to make a submission to the Inquiry into Poverty in Australia. The issue of poverty is important to The Australia Institute and I commend the Senate for initiating such an important inquiry.

This submission addresses three of the Inquiry's terms of reference.

1(a) The extent, nature and financial cost of ...poverty and inequality in Australia.

The measurement of poverty in Australia, as well as analysis of and commentary on its causes, has been a controversial topic in recent years. While The Australia Institute has not lately published any research on poverty levels, we have engaged in public debate surrounding the issue.

In particular, the Institute was moved to respond to a report published by the Centre for Independent Studies into the impact of the welfare system on individual choices and measured poverty. This response is attached and labelled Attachment A.

1(b) The social and economic impact of changes in the distribution of work, the level of remuneration from work and the impact of under-employment and unemployment.

2(a) The impact of changing industrial conditions and the availability, quality and reward for work.

The measurement of unemployment and underemployment is a major area of research interest for the Institute. While the labour market itself has changed radically in the last 40 years, measurement methods remain largely unchanged. As the number of people working part-time and casually increases, the relevance of the unemployment rate as a measure of social hardship declines.

The need to reform the measurement of labour market statistics with a view to assessing the number of hours worked with reference to the number of hours of work desired by individuals, is discussed in Attachment B, *Measuring Employment in the 21<sup>st</sup> Century: New Measures of Underemployment and overwork.*

I would be happy to provide you with further information if desired.

Yours sincerely

A handwritten signature in black ink that reads "Clive Hamilton". The signature is written in a cursive style with a large initial 'C' and 'H'.

Dr Clive Hamilton  
Executive Director

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# **Attachment A**

## CIS 'research' needs scrutiny

On 23 May 2000 the Centre for Independent Studies (CIS) released a paper entitled *Behavioural Poverty* written by Lucy Sullivan. The paper sought to pass off unsubstantiated opinion as legitimate scholarship. The paper is littered with basic errors of fact, logical anomalies and breaches of the accepted standards of academic research.

The CIS is scheduled to produce five more reports in its series on the 'welfare crisis'. The Australia Institute hopes that there will be a great improvement in the standard of scholarship in the forthcoming material. The misrepresentation of opinion as research undermines the credibility of all those who seek to further public debate through professional research and the provision of reliable information.

*Behavioural Poverty* argues that the after-tax impact of the welfare system means that many unemployed people have higher disposable incomes than the average worker, that people's experience of poverty is really only a result of their own poor behaviour and that the provision of welfare fosters such behaviour.

### *Summary of main errors noted in this response*

**"Mathematically, this [the adjustment of the poverty line] means that a certain percentage of the population will always be in poverty ..." (pp. 5-6).**

This is simply wrong. The whole purpose of the tax and welfare system is to change the distribution of income so that fewer people live in poverty. Measured rates of poverty has changed substantially over the last 20 years.

**"The average tax for a family with three children on an income a little above AWE has increased by a factor of 25 (2500%) since 1965" (p. 9).**

The average tax rate on average incomes was 13.8% in 1964/65 and had risen to 22.5% in 1995/96. Both the marginal and average tax rates on average income earners have been falling since the mid-1980s (RBA 1996, Table 2.23).

**"In 1975 ... there was no youth homelessness ..., no drug problem, low youth suicide and relatively little crime by minors" (p. 47).**

No sources are given for these implausible claims.

**"(M)any moderate earners, their incomes reduced by tax, have disposable incomes the same as, and sometimes even lower than, those whose lower earned incomes are topped up" (p. 4).**

This is the major claim of the paper. No academically acceptable evidence is provided to support it.

**The “symbiosis of single parenthood and the state provision of sole parenting benefits” is an example of “the effect of the welfare state on the behaviour of its citizens” (p. 1).**

A standard analysis of the data provided by Ms Sullivan would reverse this causality. The evidence provided indicates the benefits were introduced *in response to* the growing number of sole parents.

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1<sup>st</sup> August 2000

## A Critique of *Behavioural Poverty* by Lucy Sullivan

### Contents

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2. Major errors of fact and analysis
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  - Poverty-line analysis
  - Welfare effects on behaviour
  - Welfare system analysis
3. Breaches of academic research procedure

### 1. Unsubstantiated assertions

“In 1975 ... there was no youth homelessness ..., no drug problem, low youth suicide and relatively little crime by minors” (p. 47).

“Provision of state welfare for children created our homeless children problem” (p. 37).

“How will raising welfare payments affect these suffering children? Will their parents become loving and caring? Will they spend the extra money on toys, rather than cigarettes or heroin?” (p. 6)

*No evidence is provided that low-income parents do not currently love their children. Nor does she justify her assertion about the pervasiveness of substance abuse amongst low-income parents or the impact of increased welfare on it.*

“The responsibility [for failure to provide properly for children] lies in the progressivist dreams of the 1960s generation who refuse to see the connection that has become apparent between sexual freedom and neglect of children, most patent in the abusing boyfriend syndrome” (p. 44).

“... in the absence of exceptional misfortune or catastrophe, poverty must be the result of imprudent or irresponsible behaviour” (Foreword by Barry Maley, p. ix).

*Although this is the core claim of the paper, the author uses no standard research techniques, quantitative or qualitative, to reach this conclusion. She does not even establish that behaviours considered ‘imprudent or irresponsible’ are more prevalent among income support recipients.*

“Such requirements [obligations on unemployed people] are miniscule [sic] compared with the ‘oppressions’ and ‘invasions of privacy’ suffered by those who actually work

for an income. The employed have to turn up at their place of employment *every* day, they have to stay there *all* day ...” (p. 12).

“A comparable failure to conserve household goods, such as furniture, blankets and clothing, occurs among welfare recipients in Australia today” (p. 35).

“...only 3% of such children (children living with only one parent) enjoy meaningful shared-care arrangements” (p. 39).

*The author gives the ABS as the source for this claim. But no specific publication is given and the ABS does not use the term 'meaningful' when describing care arrangements.*

“The improvidence currently exhibited in the sexual activity of young men and women is, however, attributable to the removal of any short-term need for it, since the state will provide for any children that result” (p. 45).

*The author describes the Sole Parent Pension as 'income support for illegitimacy and divorce' but does not cite any evidence to that effect.*

“Groups providing care and rehabilitation for homeless, abused and drug using young people typically report that 70% and upwards come from sole parent families” (p. 42).

*The 'evidence' used to support this claim is personal correspondence with an individual.*

“Proponents of Welfarism assert that personal responsibility is simply beyond such people [the underclass in the USA], without apparent awareness of the arrogance and ultimately dehumanising influence of their attitudes” (p. 36).

*No references are provided to sustain the assertion that 'proponents of welfarism' believe that the US underclass is unable to take personal responsibility, except for reference to the Australian political philosopher Bob Goodin. The ANU's Professor Goodin rejects this interpretation of his views.*

Poverty today is defined by “ignorance, waste and shiftlessness” (p. 46).

## **2. Major errors of fact and analysis**

### Tax-burden analysis

***“The average tax for a family with three children on an income a little above AWE has increased by a factor of 25 (2500%) since 1965” (p. 9).***

The average tax rate on average incomes stood at 13.8% in 1964/65 and had risen to 22.1% in 1994/95. Both the marginal and average tax rates on average income earners have been falling since the mid-1980s (RBA 1997, Table 2.23).

The author appears not to understand the effects of inflation and thus the distinction between real and money incomes. Male average weekly earnings rose by more than 1400% (a factor of 15) between 1965 and 2000 (from approximately \$49.60 in 1965

to \$749.00 in 2000) (ABS 2000a, ABS 1992). This does not mean that male workers were 15 times better off.

***“(M)any moderate earners, their incomes reduced by tax, have disposable incomes the same as, and sometimes even lower than, those whose lower earned incomes are topped up” (p. 4).***

This is the major claim of the paper. The only evidence presented to support it is Figure 2 which purports to show the effect of the tax and welfare systems on different income classes. It is impossible to check the veracity of this figure as no data or methodology are presented and the only source provided is another CIS publication that is described as ‘forthcoming’. However, other claims about the details of the tax and welfare systems are demonstrably false and it is likely that Figure 2 is also flawed.

In the event Figure 2 is correct, the entire argument of the author rests on the ‘spike’ in net income for families at the 50% of AWE pre-tax earnings level, itself probably the result of a very high effective marginal tax rate that affects a very narrow band of income earners and which has been eliminated by recent changes to the welfare and tax structures (Beer and Harding, 1999). The rest of the data in the figure in fact contradict the author’s conclusion. The figures for single income earners are wholly inconsistent with the author’s argument. The tax and welfare system has very little effect on relative incomes for singles.

#### Poverty-line analysis

***The Poverty Line’s “relativistic definition of poverty as consisting of income below a certain percentage of average wages entails the unavoidable outcome that poverty will always be with us no matter how much, in material terms, an income below the defined minimum might be able to purchase” (p. x).***

***“Mathematically, this [the adjustment of the poverty line] means that a certain percentage of the population will always be in poverty, because if welfare (including family) benefits are raised, average weekly income will rise too, leaving those whose incomes are at the lowest level, whether earned, or provided or supplemented by benefits, again below the Poverty Line” (pp. 5-6).***

***“The Poverty Line is not calculated according to current costs of goods and services, vis-à-vis the material needs of individual families in real terms. ... As it is, the assessment is purely relative” (p. 6).***

Ms Sullivan does not define what she means by ‘the Poverty Line’, nor does she refer to any estimates of it. She does not appear to be familiar with the literature on measuring poverty. There are at least four different measures of poverty in common use (see eg. Harding and Szukalska 2000). The paper is about poverty, yet the use of concepts relating to the measurement of poverty is hopelessly confused.

However, parts of the paper appear to be based on a misunderstanding of one well-known measure of poverty, the Henderson Poverty Line. The latter was once based on average weekly earnings because average weekly wages were believed to be set in a manner consistent with the provision of necessities to a family of four (arising from the Harvester judgement).



In recent years another measure of poverty, the Budget Standards, has been estimated by the Social Policy Research Centre at the University of NSW. This measure is based upon estimates of the cost of living for a variety of household types at a variety of standards of living described as 'modest but adequate and low cost' (Harding and Szukalska 2000). This is the kind of measure Ms Sullivan claims is needed.

Ms Sullivan's repeated claim that 'mathematically' a certain percentage of the population will always be in poverty is simply wrong. The whole purpose of the tax and welfare system is to change the distribution of income after taxes and transfers so that fewer people live in poverty. Using a number of different poverty measures Harding and Szukalska (2000) show that child poverty, for example, fell markedly between the early 1980s and mid-1990s but has risen since then.

#### Welfare effects on behaviour

***The "symbiosis of single parenthood and the state provision of sole parenting benefits" is an example of "the effect of the welfare state on the behaviour of its citizens" (p. 1).***

The information used to support this claim is wrong and misleading. The author's own figure shows the number and percentage of 'ex-nuptial births' beginning to rise sharply from the 1950s. Yet the Supporting Parent Benefit was not introduced until 1973, so that the sole parent benefit cannot have caused the rise in births to single mothers. It was, in fact, a response to it.

The author also confuses single parenthood with ex-nuptial births. Ex-nuptial births are those births to parents who are not married. The chart showing an increase in ex-nuptial births tells us nothing about the number of single mothers. It simply tells us that an increasing proportion of parents decided not to get married. According to the leading experts in this area, it is not known what proportion of single mothers were not in stable relationships at the time of birth of their children, although 20% may be a good estimate (Birrell 2000, pp. 37-38).

For births outside marriage, the proportion in which the father is not acknowledged on the birth certificate has fallen sharply from 25.6% in 1988 to 12.9% in 1998 (ABS 2000b, p. 29).<sup>1</sup>

***"Provision of state welfare for children created our homeless children problem" (p. 37).***

No sources are given for this extraordinary claim. This is one of many conclusions in the paper that the author claims is 'shown' by the statistics. She repeatedly commits the simple error of attributing causation to a statistical correlation, an error that most first-year university students know to avoid. She writes: 'But time series show that the more money that is poured into welfare, the more the statistics of poverty increase' (p.4). This spurious resort to 'statistics' and 'time series' suggests that author does not understand basic numerical methods.

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<sup>1</sup> This fact directly contradicts the statement by Sullivan that the provision of welfare benefits to single mothers means that "an unmarried pregnant woman can consider herself independent of the father of her child. As a result, her child is likely to have no acknowledged father and is even less likely to have a father participating in its upbringing" (p. 39).

*“In 1975 ... there was no youth homelessness ..., no drug problem, low youth suicide and relatively little crime by minors” (p. 47).*

No sources are given for these implausible claims. Indeed, there is no substantiation, at even the most basic level, of the central claim of the paper that people on income support are disproportionately imprudent and irresponsible with their income and that poor behaviour is the cause of poverty.

#### Welfare system analysis

*“... no distinction can be validly made between poverty and welfare reciprocity” (p. 4).*

*“No one in Australia today can have an income of less than the regulation maximum benefit or pension...” (p. 4).*

*“Thus welfare is no longer seen as a temporary response to need, and to need only, but rather it is as if those who have once received it are regarded as retaining a right to receive it in perpetuity” (p. 13)*

The distinction between poverty and welfare reciprocity is quite clear. Poverty, however defined, is a measure of the level of income below that necessary to live at an acceptable level. Welfare reciprocity describes the state of affairs in which families or individuals are in receipt of income support. As welfare payments are made to reduce income inequality, not just to reduce poverty, many people who would not be classified as ‘poor’ are in receipt of government transfer payments.

Furthermore, significant pockets of people in Australia do live on less than the regulation maximum benefit or pension. Some people in Australia are ineligible for any form of welfare assistance (including some new migrants and their families who must wait two years). Other groups may be ineligible for the receipt of maximum benefits due to the impositions of sanctions – sometimes for minor breaches – by the welfare authorities. Finally, not everyone entitled to benefits receives them. The mentally ill, homeless people, aboriginal people living in remote areas and people who speak English as a second language are much more likely to miss out on benefits to which they are entitled.

The assertion that welfare is treated as a right rather than a temporary response to need was never true and has become even further from the truth since the 1980s with the extension of means testing. According to NATSEM: ‘The Australian tax-transfer system now appears to be the most tightly targeted in the industrialised world. .... Entitlement to most Australian cash income support payments depends upon current income at the time of seeking support, rather than upon previous income or labour force status’ (Beer and Harding 1999, p. 1).

### **3. Breaches of academic research procedure**

The paper breaches the following accepted procedures of academic research.

- The paper fails to explain how its numerical calculations were reached.

- It refers to and employs data that are impossible to validate against original sources.
- It is impossible for other researchers to check and replicate many of the research claims.
- The paper is replete with unsubstantiated assertions.
- The paper is not properly or fully referenced, so sources cannot be checked.
- Many of the references are anecdotes, second-hand reports, pamphlets and television programs (eg. the popular novel *Angela's Ashes* and the television program *Hypotheticals* are used as authorities).
- The paper does not appear to have been professionally refereed.

#### **List of unsourced data and missing references in *Behavioural Poverty***

Data on births on p. 2 has no source.

Data on welfare recipients on p. 3 has only a secondary source.

Figure 2 (unlabeled) on p. 5 has no explanation of data source nor methodology.

Population data on p. 6 has no source.

T. E. Marshall is not in the bibliography (p. 7).

Data on tax increases on p. 9 has no source.

Data on average weekly earnings on p. 9 has no source.

Comments attributed to Michael Raper are not in the bibliography (p. 13).

Quotation on p. 17 has no attribution.

Data on the old-age pension on p. 18 has no source.

Data on the number of pensioners and their cost to the government on p. 19 has no source.

Data on unemployment expenditure on p. 20 has no source.

Reference made to 'current statistics' on p. 21 makes no mention of which ones.

Data on widows pensions on p. 22 has no source.

Data on child welfare payments on p. 23 has no source.

Data on medical expenditures on p. 24 has no source.

Data on social security on p. 25 has no source.

Data on pensions and average weekly earnings on p. 28 has no source.

Data on widows pensions on p. 29 has no source.

Data on unemployment on p. 29 has no source.

Henderson and Downing (1966) is not in the bibliography (pp. 27, 31).

No source for claims about increase in pensions on p. 31.

Commission of Enquiry into Poverty (1973) not in bibliography (p. 32).

Data on people living in poverty on p. 32 has no source.

George Orwell, *Nineteen Eighty Four*, not in bibliography.

Source of comments attributed to unnamed YACS 'representatives' is not in the bibliography (p. 34).

A Barnardo's leaflet that is the source of an anecdote does not appear in the bibliography (p. 36).

Aitken (p. 37) does not appear in the bibliography but appears in the index.

ABS statistics are referred to on p. 39 but the author does not specify a publication. No ABS publications appear in the bibliography.

No sources for claims made about average tax rates in the U.S. and U.K. (p. 39).

Majority Report of the British Poor Law Commission, 1909, is cited (p. 49) but does not appear in the bibliography.

Bosanquet is cited but does not appear in the bibliography (p. 45).

NATSEM is cited on p. 47 but does not appear in the bibliography.

## References

ABS 1992, *Average Weekly Earnings, Australia, 1941-1990* (Cat. No. 6350.0, ABS, Canberra)

ABS 2000a, *Average Weekly Earnings, Australia, Preliminary* (Cat. No. 6301.0, ABS, Canberra)

ABS 2000b, *Australian Social Trends 2000* (ABS, Canberra)

Beer, Gillian and Harding, Ann, 'Effective Marginal Tax Rates: Options and Impacts', NATSEM, 1999

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Harding, Ann and Szukalska, Aggie 2000, 'Social Policy Matters: The changing face of child poverty in Australia, 1982 to 1997-98', Paper presented at the 7<sup>th</sup> Australian Institute of Family Studies Conference, July 2000

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