GLOBALISATION AND POVERTY IN AUSTRALIA

Paper for conference: Towards Opportunity and prosperity
University of Melbourne, April 2002

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My comments on the impact of globalisation on poverty are confined to its impact on poverty in rich countries such as Australia.

I make the following points:

- Wide variations in child poverty among rich countries suggest that national policies may have a greater bearing on poverty in these countries than the forces of international competition alone.
- Globalisation may, however, have a significant effect on national poverty levels via the medium of Government and corporate policies to "improve competitiveness".
- Two examples are cited: the effect of international tax competition (especially downward pressure on personal and corporate income tax rates) on public revenues, and the effect of rapid structural adjustment and high labour turnover on joblessness within families.

I conclude that:

- It is not globalisation itself, but how we respond to it that will effect poverty levels in Australia in the long run.
- A significant cause of Australia's relatively high child poverty levels is systemic weaknesses in those institutions that help absorb the risks associated with economic openness, such as the social security system and employment assistance for jobless people.

Others are better placed to comment on the effects of globalisation on developing countries. It is worth noting, however, that a recent World Bank study on this subject has attracted criticism for drawing general conclusions about the benefits of globalisation from strongly positive impacts in a few countries, especially China and India.[1]

The effects of increasing economic integration are very uneven. This is the dilemma for developing countries. Left to themselves, those countries that currently lack the resources and capacities to benefit (including most of Africa) will continue to fall behind. In the absence of a fair and consistent international regulatory regime in which developing nations have a genuine say, global market forces will continue to disadvantage many of them [2]

The story is somewhat different in rich countries such as Australia.

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[1] World Bank (2001).
[2] International Council on Social Welfare (2002).

Child poverty in rich countries

The wide variation in poverty levels among rich countries suggests that national policies are likely to have more bearing on poverty in these countries than international economic forces.

To simplify the story, I focus here on child poverty. When relative poverty measures are used[3], the proportion of children living in poor households in Australia is well above the OECD average, and in the U.S. substantially so. A recent study of child poverty commissioned by UNICEF[4] [see *Graph 1*] suggests that 2.6% of Swedish children live in poverty, compared with 7.9% in France, 12.6% in Australia, and 22.4% in the U.S.

Key national policy influences on child poverty include:

- joblessness in households of workforce age,
- the scope and generosity of social security systems;
- minimum wage levels;
- family composition, especially the proportion of families headed by a sole parent.

The effects of globalisation on poverty in Australia

The effect of global economic integration on poverty in Australia is more subtle than theories of a "race to the bottom" might suggest. The liberalisation of international trade and investment does not seem to *directly* lead to large cuts in real wages or welfare benefits or large increases in joblessness in rich countries, except in those industries most affected by international competition.[5]

Nevertheless, Government and corporate policies that have increased poverty and inequality in Australia have at times been pursued under the banner of "improving national competitiveness".

One example is what might be called the destructive down-sizing of large enterprises and government services over the past decade.[6]

It is doubtful that these policies actually improved national competitiveness over the long-term. Yet the fact that they were at times presented as the inevitable outcome of economic forces beyond our control is an important cause of disaffection with "globalisation" in countries like Australia.

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[3] 50% of median adjusted household disposable income within each country.

[4] UNICEF (2001).

[5] Resolving this question is beyond the scope of this paper.
A recent international comparative study of globalisation and poverty, Mahler (2001), concludes (at p24) that:
"Integration of the world economy does not systematically lead to an inegalitarian distribution of income across entire economies....One conclusion that can be drawn [with respect to our political variables] is that politics continues to play a critical role in determining distributive outcomes in the developed world."
In regard to Australia, see Fahrer & Pease (1994), a paper which examines the effects of trade liberalisation on wages and employment in Australian industries.

[6] This refers to cutbacks in expenditure and jobs designed to improve short-term bottom lines rather than long-term efficiency.

People use globalisation to justify the policies they want to introduce anyway. This is the *globalisation excuse*.

The remainder of this paper briefly discusses two examples of possible links between globalisation and child poverty in Australia over the long-term: international tax competition and joblessness resulting from structural adjustment in the economy.

Example No 1: Social expenditure and the constraint of international tax competition

The first example is international tax competition.

There is a clear relationship between national social expenditure levels and the alleviation of poverty. Countries that spend more on social benefits and services have lower child poverty rates. [see *Graph 2*]

Australia has among the lowest levels of social expenditure in the OECD, due mainly to the low levels and tight targeting of our social security payments. This means our social security system does more to reduce poverty per dollar spent, than in most other OECD nations. But not enough is spent to reduce poverty to anything resembling the levels in most continental European countries.

As a result, key payments are below poverty levels:

- The maximum single adult rate of unemployment benefits (Newstart Allowance[7]), in September 2001 was $223 per week, $64 below the relevant Henderson Poverty Line.
- The maximum rate of social security payments for a sole parent with two school-age children is $414 per week, $32 below the relevant Henderson poverty line.[8]

A well targeted boost to social security payments could do much to reduce child poverty in Australia. According to UNICEF estimates, child poverty could (at least in theory) be eliminated by increasing spending on social security payments to families by 0.39% of GDP.[9] This is around $3 billion per annum, or 4% of our social security budget. Alternately, it is one and a half times what the Government spends on an inefficient rebate to support private health insurance.

Higher social expenditure requires more public revenue. Higher public revenue might erode competitiveness by reducing incentives to work or invest. However, given Australia's relatively low public revenue levels, it is hard to sustain an argument that higher public revenue as such will render us uncompetitive internationally.[10]

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[7] including Rent Assistance.

[8] Melbourne Institute, *Poverty Lines* September quarter 2001.

[9] Of course, in practice there is no single solution to child poverty. I also briefly explore the option of improved investment in labour market assistance to reduce the incidence of jobless families in this paper.

[10] Australian Governments collected public revenue equivalent to 22% of GDP in 1999, compared with an OECD average of 28%. See OECD, 2001(a). This is just above U.S. levels (at 21% of GDP). Moreover, given the greater efficiency of our social security system in reducing poverty, large increases in public revenue would not be required. We would not have to spend anything like the social outlays of most European countries to substantially reduce poverty.

Nevertheless, the spectre of international tax competition has reduced confidence in our ability to collect public revenue from some sources, especially high-income individuals and the corporate sector. This is evidenced by the recent lowering of Capital Gains Tax and corporate income tax rates to "improve competitiveness", as part of the Government's business tax reform agenda. On the face of it, this leaves less scope to raise revenue for social programs in an equitable way.

Yet there is scant evidence to suggest that personal and corporate income tax revenues are actually declining in rich countries. *Graph 3* shows that the overall level of revenue collected from income and social security taxes has risen over time, both in Australia and overseas.

One explanation for this is that the loss of revenue from lower tax rates has been offset by broadening the income tax *base*. In this way, both equity and efficiency are advanced and the public revenue base can actually be strengthened over time. But this requires political will-power and tenacity. It means confronting the powerful vested interests that benefit from loopholes in the tax system.

That political will-power will be tested in the near future when the Government makes its final decision on action to curb tax avoidance through discretionary trusts - part of the unfinished business of the business tax package.

International tax competition is real. However, the argument that globalisation inevitably restricts our options for raising public revenue in an equitable way, is a good example of the *globalisation excuse* at work.

Example No 2:
Jobless families and structural adjustment

Australia has one of the highest rates of joblessness among families with children in the OECD *[see Graph 4].* This is a major cause of child poverty.[11] One reason for this is our relatively high proportion of sole parent families: 14.1% of all families with children, just below the US at 16.6% but above the average among 22 OECD countries of 9.5%[12].

Another reason might be that Australia has not sought to protect the jobs of breadwinners from trade liberalisation and structural adjustment, and that many have been left behind in the process.

Australia has a relatively high level of job turnover (including a high incidence of redundancies). Average job tenure in Australia for middle aged workers (those most likely to have children) was just under 6 years in 1995, less than the U.S. (at just over 6 years) and well above the OECD average of just over 8 years.[13] Moreover, Australia has a relatively high proportion of casual workers.[14]

Together with increased competition in product markets, this high level of labour turnover helps the economy to restructure quickly in response to competitive pressures.

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[11] UNICEF (2000)
[12] UNICEF (2000).
[13] OECD (1997).
[14] In 2000, 27% of Australian jobs were casual. The number of casual jobs increased by 68% over the 1990s (compared with a 5% rise in the number of permanent jobs). See Borland et al (2001).

If retrenched or casual workers who want a more secure job can easily find one, then high labour turnover will not lead to high levels of prolonged joblessness and poverty. Indeed, it may help reduce them. However, it is clear that structural adjustment in the economy over the past 30 years has left many Australian workers behind.

For example:

- In 2000, 28% of unemployed Australians were out of work for more than 12 months (which is about the OECD average, hardly a strong performance).[15]

- In 1998, about half of all long-term unemployed people and female sole parents had only completed 10 years of schooling.

- In the same year, almost half of those long-term unemployed people who previously held a job were engaged in low skilled blue-collar work.[16]

A background in low-skilled manual work and a limited education are not the tickets to secure employment in a restructuring Australian economy.

Unlike some southern European countries (including Italy and Spain), Australia does not use tough employment protection legislation to shield family breadwinners from job loss.[17] Yet, unlike some northern European countries (such as the Netherlands and Denmark), we invest very little in active labour market assistance to help job losers and sole parents to secure jobs in growth sectors. *Graph 5* shows that Australia is grouped, along with the US, among the lowest-spending countries on labour market assistance for jobless people. We also spend relatively little on post compulsory education and training to upgrade workforce skills across the life course.

Australia has been much less successful in reducing unemployment than small open economies such as Denmark and the Netherlands (their unemployment rates in 2000 were 4.7% and 2.8% respectively). These countries maintain a robust welfare safety net while investing strongly in labour market assistance to progress people from welfare into jobs.[18] They maintain relatively high minimum wages while pursuing wage restraint across the board to accommodate jobs growth. Using this policy mix they are able to compete internationally while shielding families with children from poverty.[19]

An alternative path to lower unemployment is that pursued by the U.S (where the unemployment rate in 2000 was 4%). There, unemployment is held in check, not by a substantial investment in labour market assistance but by low minimum wages and tough welfare policies and tax credits designed to make low wages attractive. The result is the paradox of strong economic growth, low unemployment and high rates of child poverty.[20] These high poverty rates can be explained in large part by the combination of inadequate welfare support for jobless people and inadequate minimum wages.

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[15] OECD (2001).
[16] The last two figures are from Borland & Kennedy (1999).
[17] Australia has relatively liberal employment protection laws. See OECD (1999). See also Esping Andersen (1999).
[18] For a discussion of possible reasons for their success, see Auer (2000).
[19] Their child poverty rates, according to UNICEF, are 5.1% and 7.7%, respectively.
[20] UNICEF's estimate for the US is that 22.4% of children there come from households living in poverty.

The second example suggests that globalisation has the *potential* to raise child poverty by increasing the pace of economic restructuring, and raising the pressure on policy makers, employers and unions to increase labour market flexibility[21].

However, economic restructuring and greater labour market flexibility are probably needed in any case to raise national income. The success of some northern European countries with well-developed welfare systems in adapting to international competitive pressures suggests that people need not be left behind or impoverished in the process. There are different roads to international competitiveness.

Conclusions

These examples suggest three conclusions:

1. It is not globalisation itself, but how we respond to it that will influence poverty levels in Australia over the long-term.

2. A significant cause of Australia's relatively high poverty levels is systemic weakness in those institutions that help absorb the risks associated with economic openness. They include inadequate social security benefits, an under-developed system of active employment assistance for jobless people, and a tax base that is probably incapable of financing the necessary social expenditure over the long-term.

3. It is possible to combine economic openness and social equity, to change without leaving people behind. We have not been consistently good at this because we have not explicitly adopted *growth with equity* as a primary national policy goal. This goes some way towards explaining increases in poverty in Australia. It goes a long way towards explaining popular disaffection with globalisation in recent years.

[21] Whether by lowering wages for unskilled work and removing employment protections or by raising skill levels and improving "functional flexibility", for example through multi-skilling.

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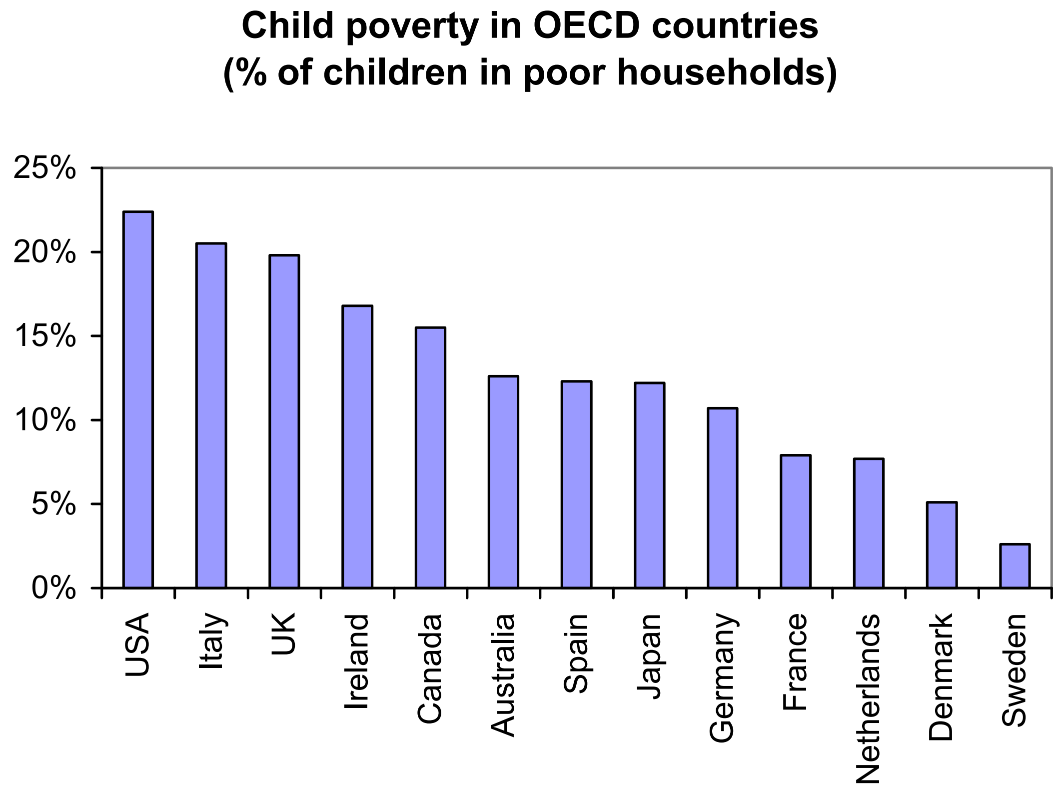
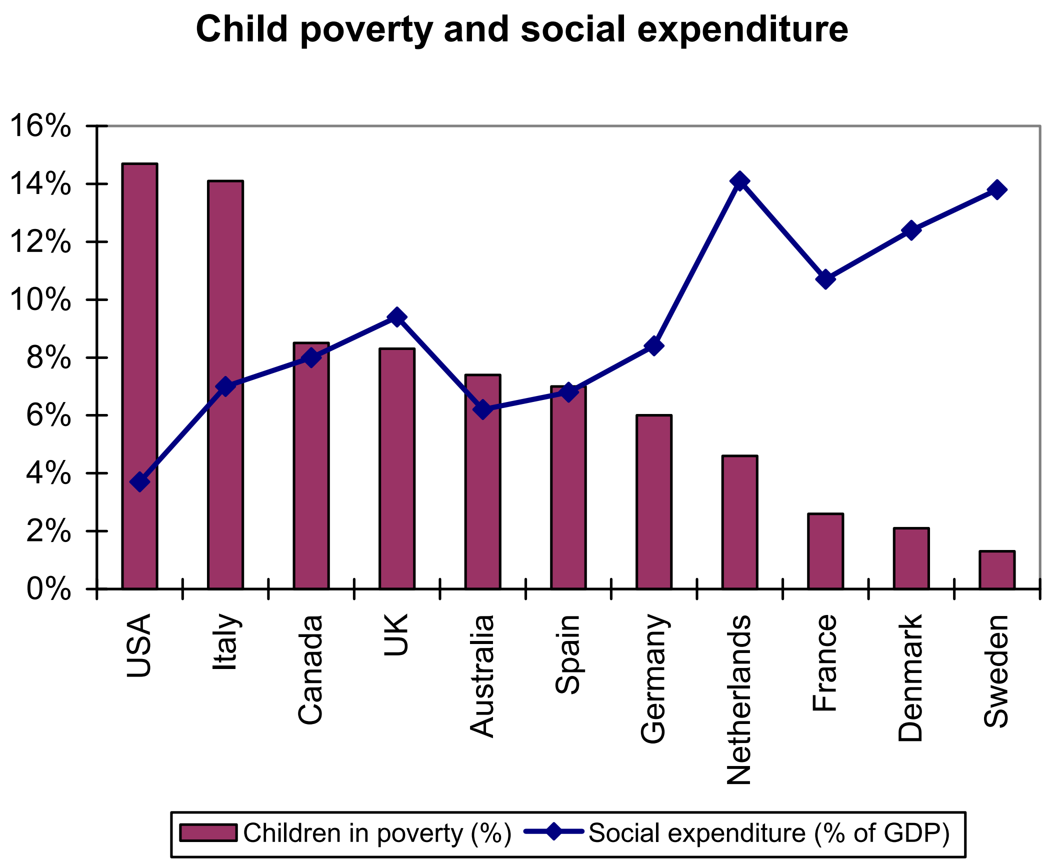
Figures referred to above

Graph 1:

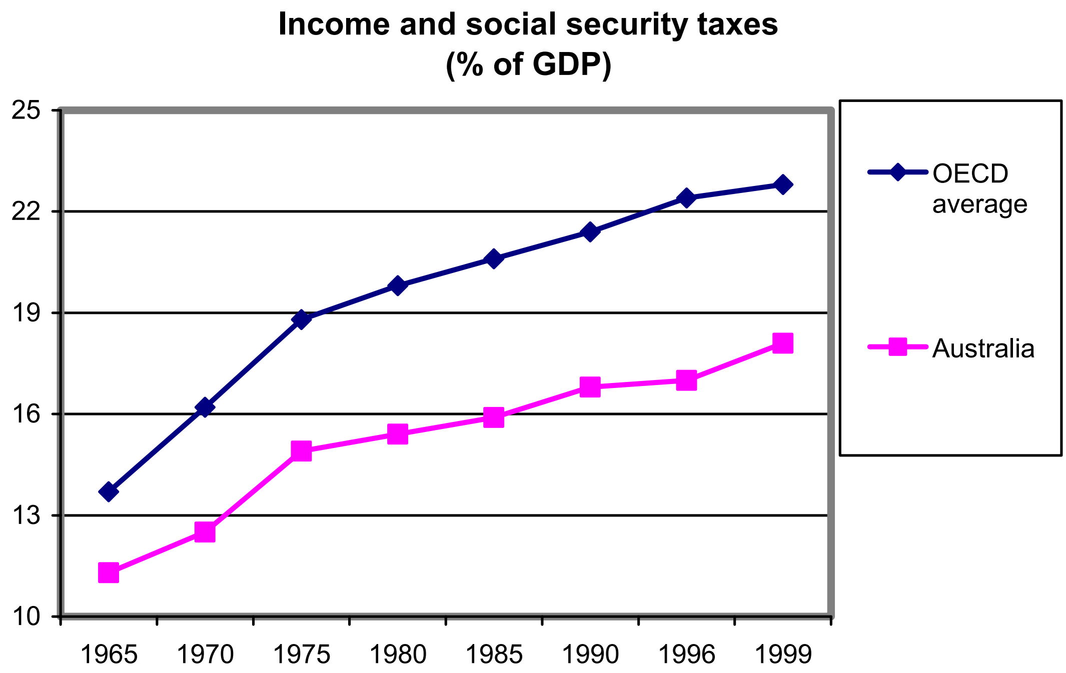


Source: UNICEF (2000), *Child poverty in rich nations*. Florence.
Note: Based on a poverty line equivalent to **50**% of median household disposable income.

Graph 2

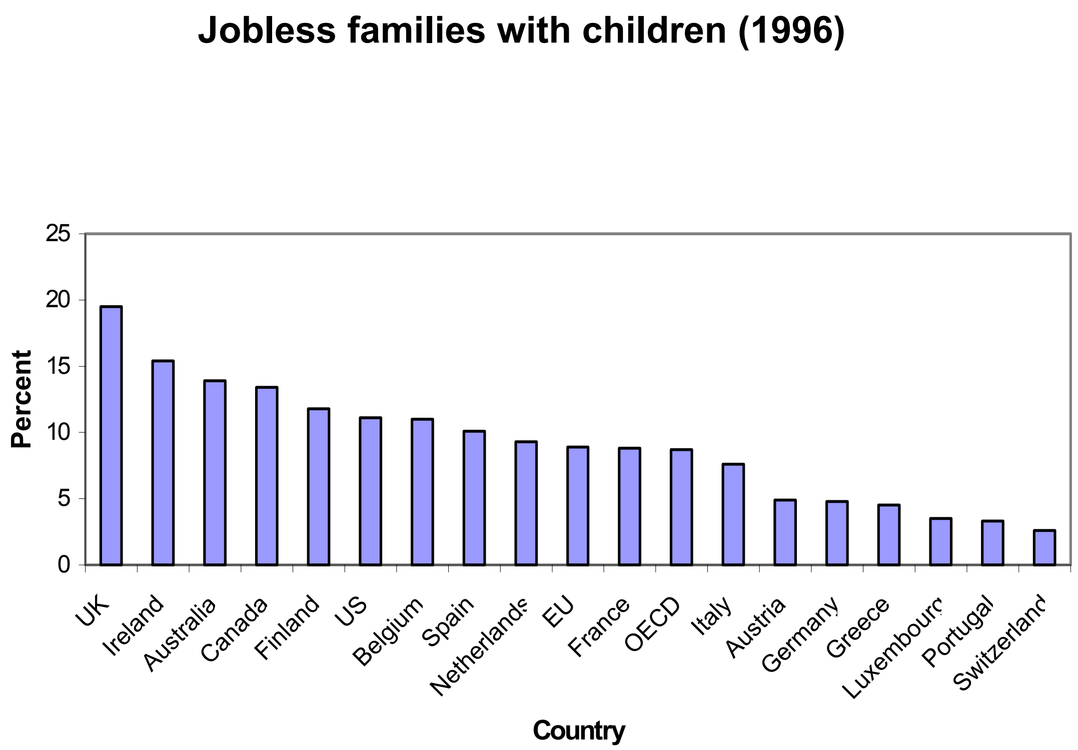


Source: Smeeding et al (2000), *United States poverty in a cross national context*. Maxwell School of Citizenship and Public Affairs, Syracuse University New York.
Note: Based on a poverty line equivalent to **40**% of median household disposable income. Social expenditure refers to cash and non-cash transfers to non-aged households.



Source: OECD Revenue Statistics (1965-2000)

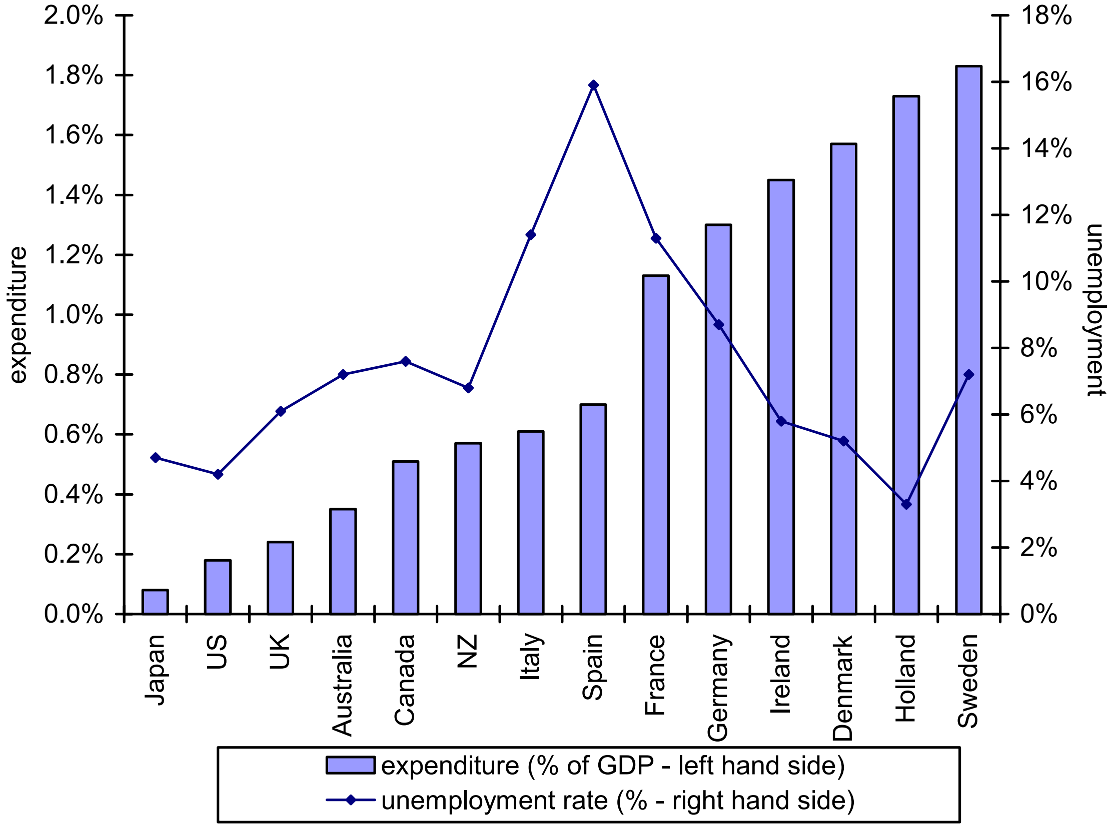
Graph 4



Source: Dawkins, Gregg & Scutella (2001), *The growth of jobless households in Australia.* Melbourne Institute Working Paper No 3/01, University of Melbourne

Graph 5

Public employment expenditure for jobless people, and unemployment, in OECD countries (1998-99)

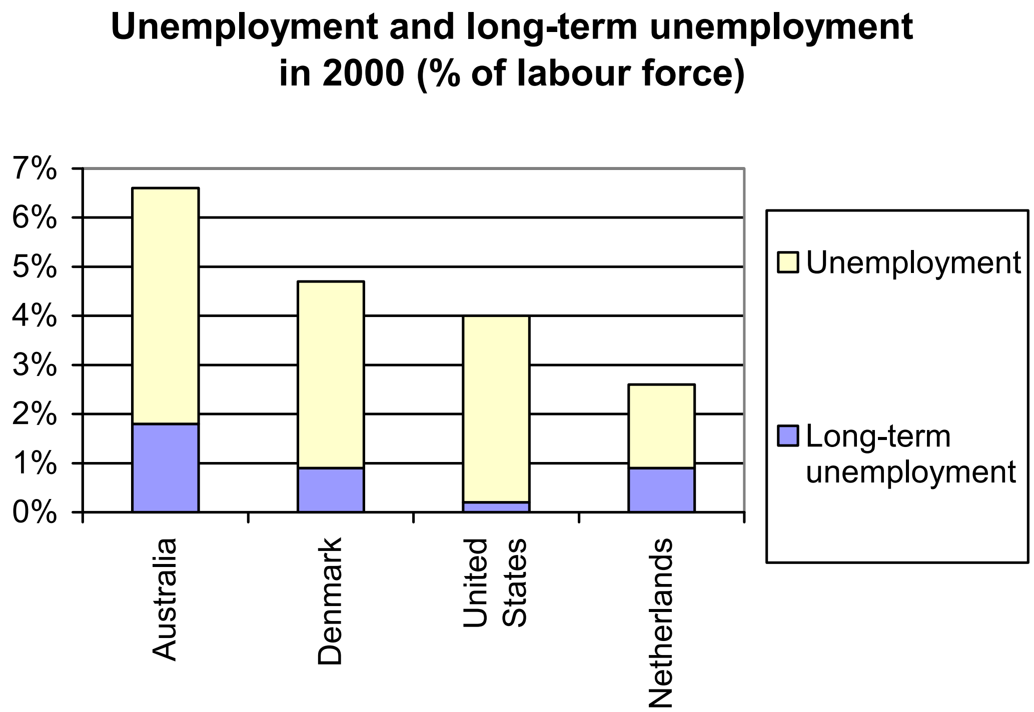


Source:
OECD Employment Outlook, June 2000

Note

There is no consistent relationship between employmant assistance expenditure and unemployment rates. Expenditure reflects national policy choices rather than the number of people unemployed. Some countries (like the US) have kept unemployment low without recourse to high expenditures, others with higher expenditures (like Spain) have not been successful in reducing unemployment, while others with high expenditures (like Denmark) have enjoyed much greater success.

Graph 6



Source: OECD (2000), *Employment Outlook.*