

Guy Palmer

Social justice:

First world poverty

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and click on the relevant link

A clarification

This session is about poverty and social exclusion in **the developed world, not in the third world**

Two key points

Even if you forget everything else from this talk, remember these two concepts/issues:

- **Relative vs absolute thresholds/perspectives**
- **Universalism vs means testing**

My credentials

In 1996, I co-founded a UK think tank (New Policy Institute) which focused on issues of social justice

We became best known for our work on poverty and social exclusion

You can still buy some of my books on Amazon (search “Guy Palmer poverty”)

But:

- **I retired 10 years ago**
- **My work was in the UK**

Guy in 1996



A caution

20 years ago, we sometimes disagreed about values but:

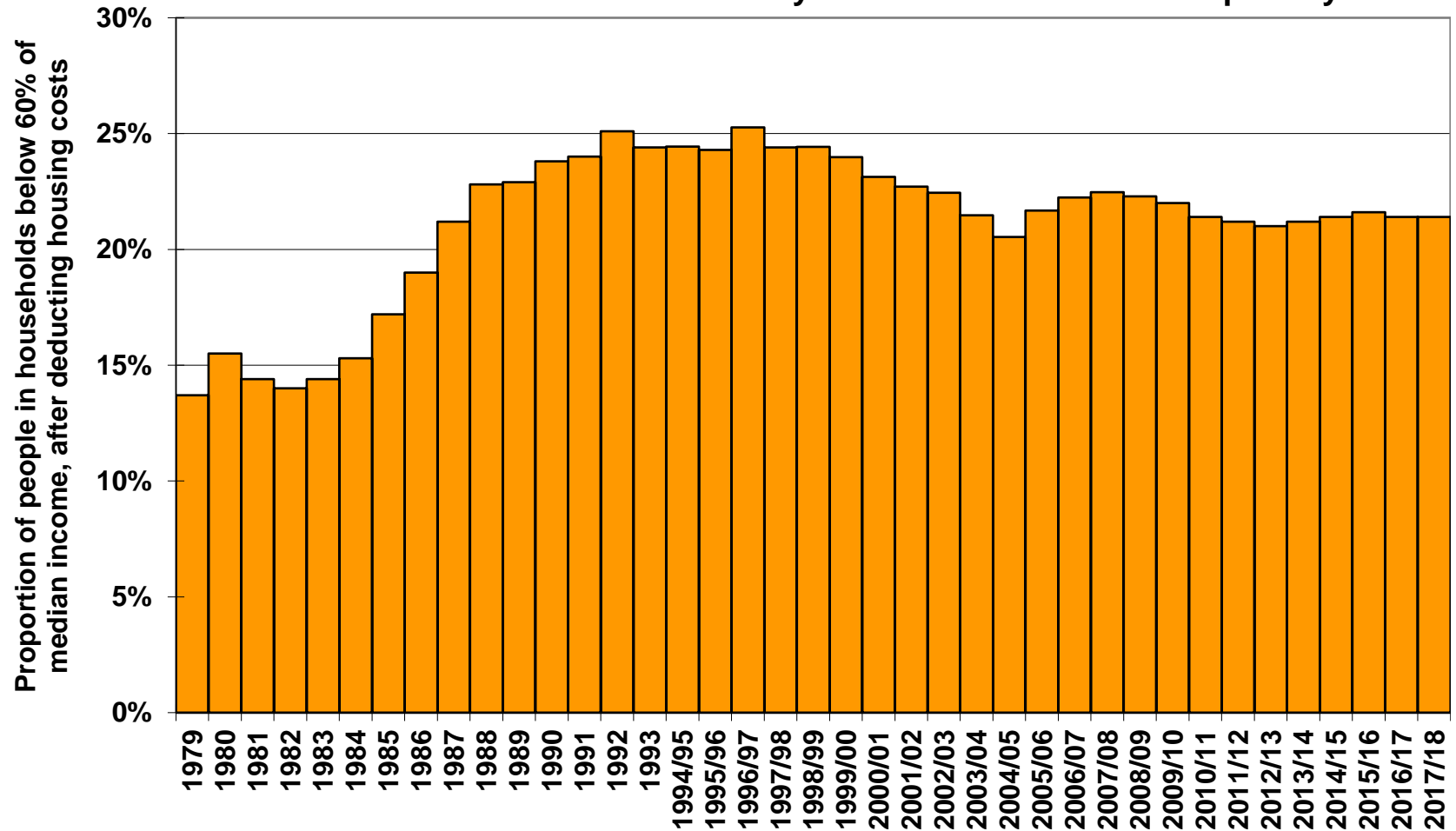
- **We mostly agreed about the facts**
- **We mostly agreed about the meaning of words**
- **We debated the issues reasonably seriously**

Nowadays:

- **The values of most politicians are totally unclear**
- **People seem to feel free to ignore facts, or even invent their own**

UK trends in income poverty

The proportion of people in the UK who are households with an income below that of the most commonly used threshold of income poverty



Source: Households Below Average Income, DWP

Income poverty statistics in the UK

The numbers:

- **Large**
- **Currently stable**
- **Rose a lot in the 1980s**
- **Fell a bit around the turn of the century**

The availability of the statistics:

- **Agreed definitions**
- **Large, annual government surveys**
- **Government publication of reports and datasets**

Income poverty statistics in Australia

As far as I am aware, Australia is the only country in the whole of the developed world that does not have a commonly used threshold of income poverty or, indeed, an agreed concept of income poverty

Definitions - poverty

- A lack of **money**
- + **Essential things that are caused by a lack of money
(e.g. material possessions, food)**
- + **Things that cause a lack of money
(e.g. lack of work, lack of education)**
- + **Essential things associated with a lack of money
(e.g. victim of crime, lack of bank account)**

Definitions – social exclusion

- A lack of the **opportunities** for social interaction that are **available to most people**
- May or may not relate to a lack of money (e.g. people who are stuck in their house)
- May or may not have causes other than, or as well as, a lack of money
- Aka disadvantage
- Aka the opposite of social inclusion

Definitions – poverty and social exclusion

- **Some people take an expansive view of the word ‘poverty’ which also encompasses much of ‘social exclusion’**
- **Other people take a narrow view of the word ‘poverty’, which limits it to solely a lack of money**
- **Both groups of people take a similar view of the phrase ‘poverty and social exclusion’**
- **Hence the use of the phrase**

Some philosophical issues

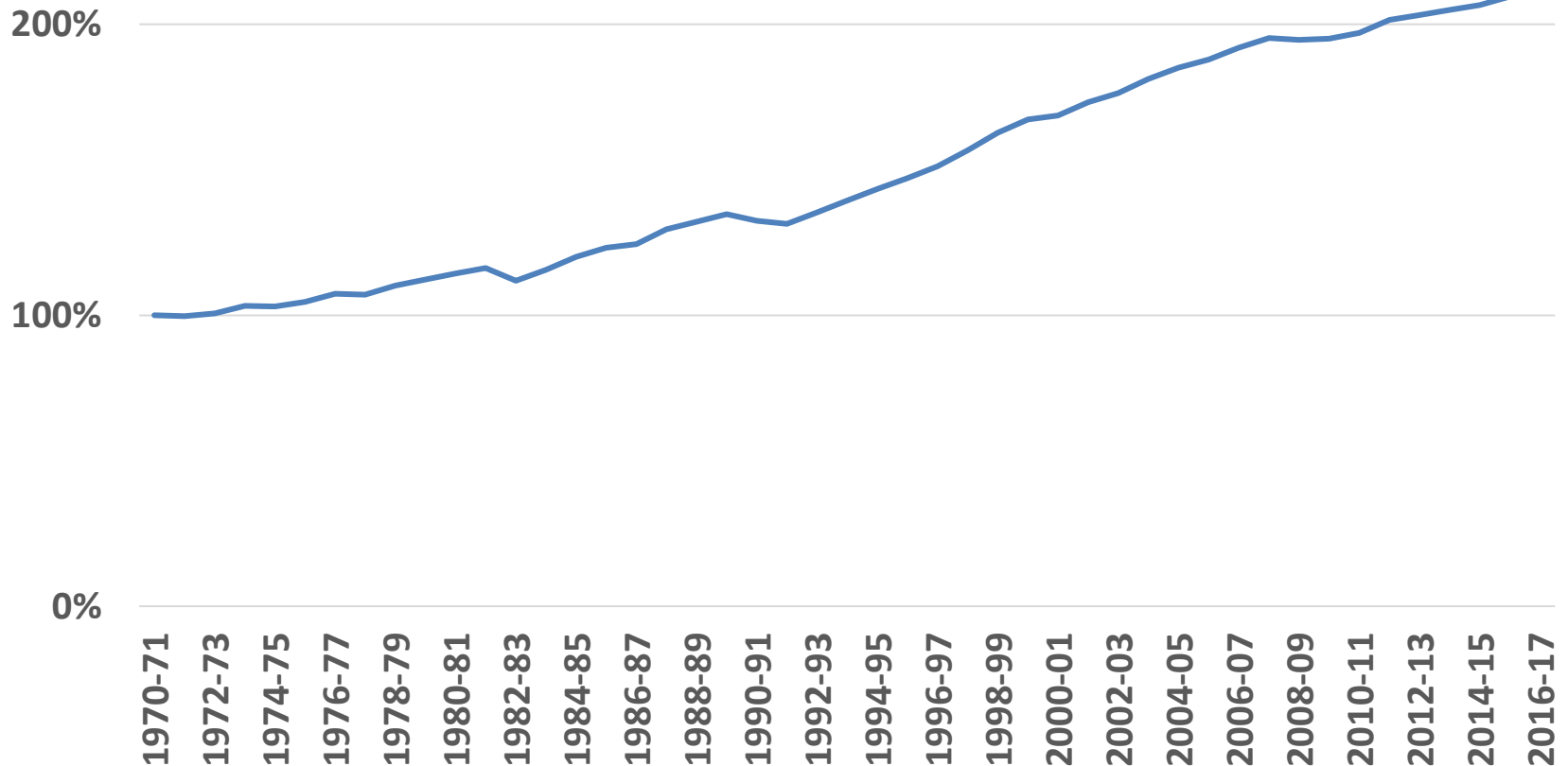
- 1. Relative vs absolute**
- 2. Comparisons with whom?**
- 3. Equality of opportunity vs equality of outcome**
- 4. The deserving vs un-deserving poor**
- 5. Perceptions vs actuality**
- 6. Universalism vs means-testing**
- 7. Expenditures vs transfers**

Some philosophical issues

1. **Relative vs absolute**
2. **Comparisons with whom?**
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On average, we are twice as rich as 40 years ago

Real GDP per capita (1970-71 = 1)



Relative vs absolute perspectives

Assume a reasonable measure of low income in the 1970s was half the average (\$12.5K pa)

Around 20% of the population would probably have been below this income threshold

Then, from an absolute perspective:

- The low income threshold would still be \$12.5K pa**
- Very few people would be below this threshold**

But, from a relative perspective:

- The low income threshold would now be \$25K pa (i.e. twice the 1970 threshold)**
- Ceteris paribus, around 20% would be below the \$25K pa threshold**

Relative vs absolute perspectives (corollary)

Assume a reasonable measure of low income now is half the average (\$25K pa)

Around 20% of the population would probably be below this income threshold

Then, from an absolute perspective:

- The low income threshold in the 1970s would still be \$25K pa**
- Around half of the population would have been below this threshold**

But, from a relative perspective:

- The low income threshold would have been \$12.5K in the 1970s**
- Ceteris parabus, around 20% would have been below the \$25K pa threshold**

The United States perspective

- **Essentially absolutists**
- **Low income thresholds that are fixed over time**
- **Numbers in low income that decrease over time (notwithstanding increasing inequality)**
- **Poverty isn't a big issue**
- **No need to bother much about minimum wages; no need to raise benefits levels above inflation**

The European perspective

- **Relativists**
- **Everyone should share in our increasing prosperity**
- **Low income thresholds that rise over time in line with overall income trends**
- **Numbers in low income that are substantial and remain so over time**
- **Poverty is a big issue**
- **Continual need to review benefit levels, minimum wages, etc**

The Australian perspective

???

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Comparisons with whom?

When thinking about a poor person's situation, who should they be compared with?

- 1. Their grandparents when they were of the same age?**
- 2. Gina Rinehart?**
- 3. Your average person today?**

Comparisons with whom (re-worded)?

A person can't afford to have a washing machine

When thinking this person's situation, who should they be compared with?

- 1. Someone from yesteryear who washed all their clothes by hand?**
- 2. Someone who employs someone else to wash their clothes for them?**
- 3. Someone who has a washing machine?**

Comparisons with whom? The answer

- **The right answer, at least to a relativist, is no. 3. (your average person today)**
- **In other words, ‘poverty and social exclusion’ is about people’s lifestyles not being a million miles away what is considered normal/essential in contemporary society**
- **Nerdy technical point: use ‘medians’ rather than ‘means’ to avoid the distorting effect of the top 1%**

What should be considered essential?

- 1. Food?**
- 2. Housing?**
- 3. Healthcare?**
- 4. Washing machines?**
- 5. Holidays?**
- 6. Mobile phones?**
- 7. Cars?**

The generally accepted answer: ask the public

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Equality of opportunity vs equality of outcome

- **‘Equality of opportunity’ =
‘everyone should have a fair go’**
- **Does everyone agree that there
should be equality of opportunity?
(what about education)**
- **Does anyone in Australia ever
discuss equality of outcome?**
- **To what extent should life be a
lottery?**

**A statistical interlude
(mostly UK-based and out-of-date)**

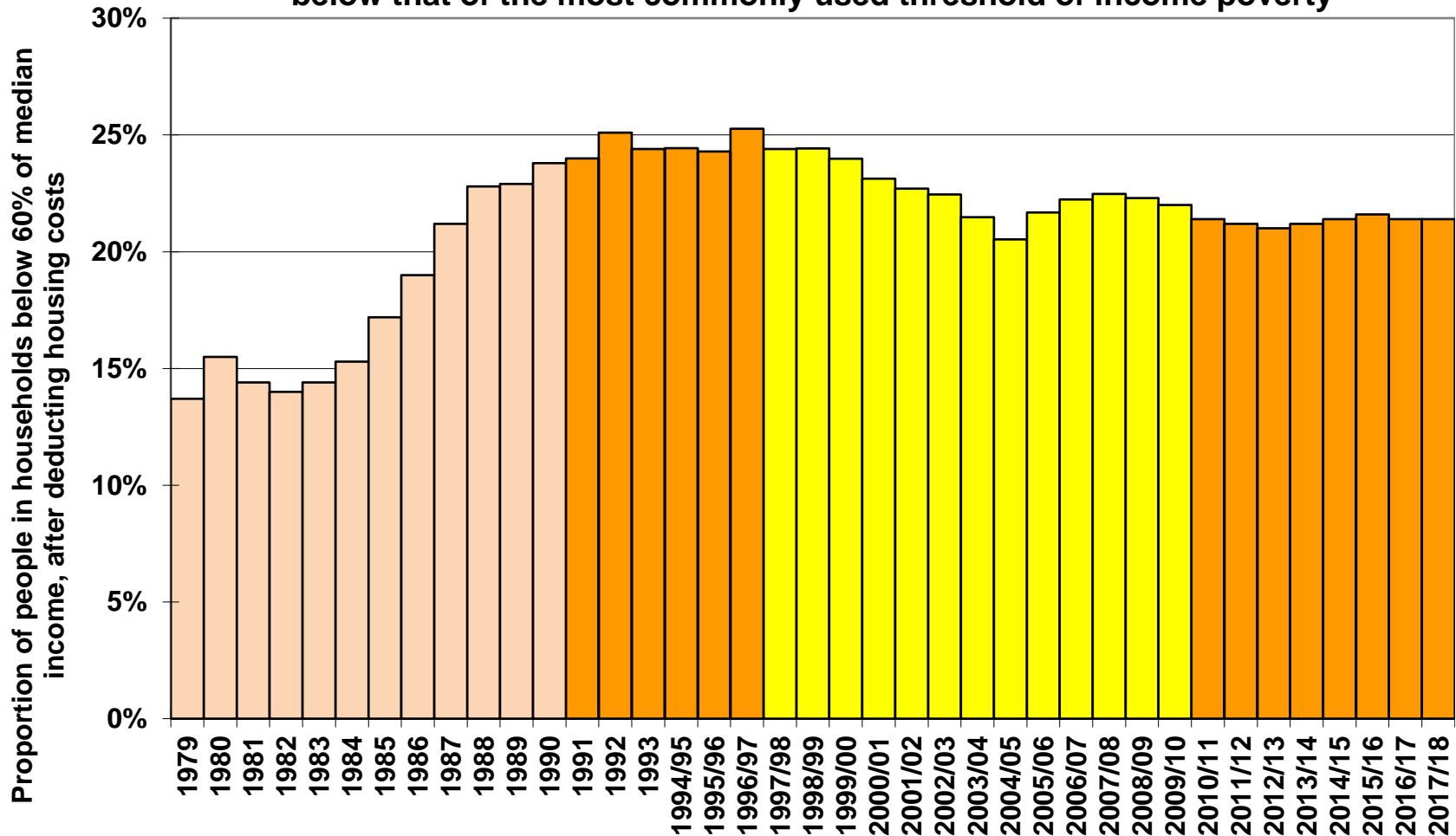
The European perspective

Everyone throughout the European Union and UK uses the same primary threshold of low income, namely:

people who live in households with below 60% of median household income after adjusting for household size

Proportion in low income (UK)

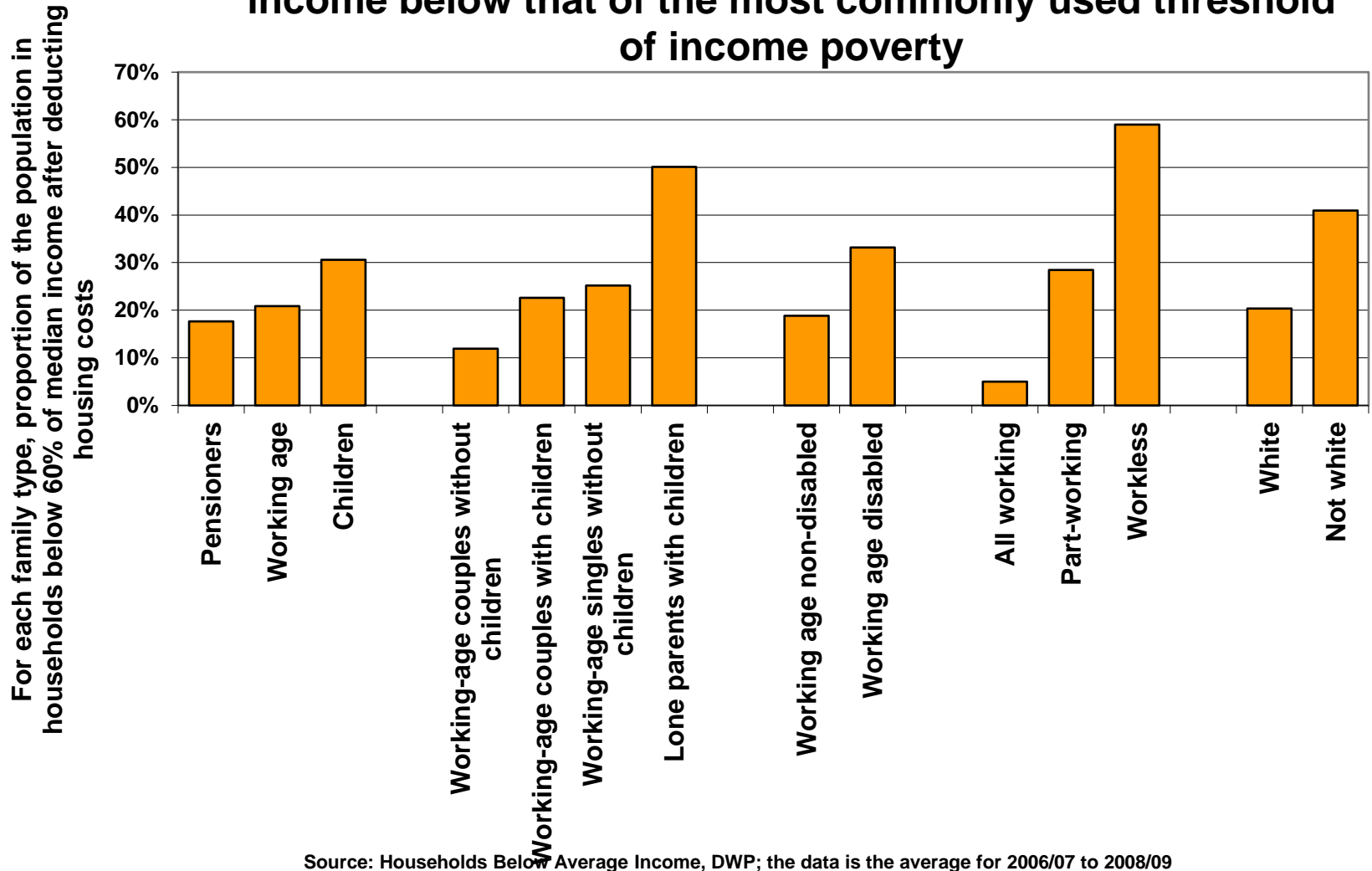
The proportion of people in the UK who are households with an income below that of the most commonly used threshold of income poverty



Source: Households Below Average Income, DWP

Proportion in low income (UK)

The proportion of the group who are households with an income below that of the most commonly used threshold of income poverty



Source: Households Below Average Income, DWP; the data is the average for 2006/07 to 2008/09

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The deserving vs un-deserving poor

Some people seem to think that:

- **Older people are deserving ('they have served their time')**
- **Children are deserving ('it's not their fault')**
- **Working-age adults are less deserving, particularly if they are not in paid work**

So, the UK Government

- **Re older people: increased the pension a lot**
- **Re children: helped by helping their parents through increased benefits and tax reliefs**
- **Re working-age without children, including those with disabilities: didn't do very much**

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Perceptions vs actuality

Well-off people tend to meet lots of other well-off people and not many poor people

So, well-off people may think that there aren't many poor people

Poor people tend to meet lots of other poor people and not many well-off people

So, poor people may think that it is normal/common to be poor

So, both well-off people and poor people may underestimate the issues of poverty

Perceptions vs actuality - corollary

- **In England, income poverty is less prevalent in rural areas than in urban areas**
- **But, if you are poor in a rural area then you might well be worse off than your urban equivalent because:**
 - **There are fewer services**
 - **There are fewer people who relate to you**
 - **You are more out of place**

Is Eltham somewhat analogous to rural England?

Food shares, etc

- **In Abbotsford, there is a voluntary organisation (FareShare) that cooks and gives away 1.3 million meals a year**
- **In Greensborough, there is a voluntary organisation (Diamond Valley FoodShare) that gives away 50,000 meals a year to Banyule residents**
- **In Eltham, there used to be a volunteer run food share. It no longer exists.**

All very worthy, but should they be needed?

Insurance

In any given year, the proportion of households who get burgled is:

- 2% for those with home contents insurance
- 8% those without home contents insurance

i.e. the people most at risk of being burgled are also the people least likely to have insurance

The proportion of households without home contents insurance is:

- 55% for the poorest fifth
- 15% for the middle fifth

i.e. many poor people do not have home contents insurance

Insurance (cont 1)

- **The concept of insurance is pooling of risk**
- **(The European Welfare States started out as insurance schemes)**
- **Differential pricing of insurance is about aligning premiums with risk**
- **‘Aligning premiums with risk’ is a very different principle than ‘pooling of risk’. Almost the opposite.**
- **If premiums were perfectly aligned with risk, then effectively the insurance would be meaningless**

Insurance (cont 2)

- **Insurance companies make a profit**
- **So, people getting insurance, on average, make a loss**
- **If you can easily afford to pay to replace burgled goods then, logically, you shouldn't get insurance (technically: if your expenditure elasticities are constant)**
- **If you can't afford to pay to replace burgled goods, then you do need insurance**
- **So, regardless of risk, it is poorer people who need insurance the most**

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Universalism vs means-testing

		Person 1	Person 2
	Gross income	10	0
Scenario 1	Take (e.g. tax)	1	0
	Give (e.g. benefit)	0	1
Scenario 2	Take (e.g. tax)	2	0
	Give (e.g. benefit)	1	1

“Australia targets income support to the poorest groups in the population to a much greater extent than any other rich economy” From the Australian Treasury website.

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Expenditures vs transfers

		Person 1
	Gross income	10
	Tax	1
Scenario 1	The tax monies are used to maintain the roads	
Scenario 2	The tax monies are given to low-income people	

Whilst scenario 1 involves a real consumption of resources, scenario 2 does not. Economic theory views the two as being quite different.

Universalism in Australia (not!)

“Overall, the Australian social security system has many strengths:

“Australia targets income support to the poorest groups in the population to a much greater extent than any other rich economy.

“This allows us to provide minimally adequate support at relatively low financial cost.”

From the Australian Treasury website

Universalism in the UK

- 1. The NHS**
- 2. The state pension**
- 3. Education (at least historically)**
- 4. Tax credits (at least under Labour)**

Tax credits – stage 1

The historic situation:

- **Low-income people received benefits**
- **Other people received tax reliefs**

The tax credit system:

- **Low-income people receive tax credits**
- **Other people receive tax credits**

So:

- **Everyone continues to receive the some monies**
- **But now everyone benefits (or thinks they benefit) from the same system**

Tax credits – stage 2

- **Increasing the incomes of low-income people can be achieved by simply changing the parameters of the tax credit system**
- **So, it doesn't require any high publicity changes**
- **In the UK, many people pay/paid a negative amount of income tax**

Universalism vs means-testing

Universalism	Means-tested
Everyone is a recipient	Targeted recipients
Higher marginal tax rates	Lower marginal tax rates
Monies are considered transfers	Monies are considered expenditures
Key words: <ul style="list-style-type: none">• Rights• Us• Dignity	Key words: <ul style="list-style-type: none">• Handouts• Us and them• Shame

Universalism has gone out of fashion and/or been forgotten and/or is now not widely understood

Summary

- 1. As far as I am aware, Australia is the only country in the whole of the developed world that does not have a commonly used threshold of income poverty**
- 2. In Europe, income poverty thresholds are relative, rising as society gets richer**
- 3. In Europe, income poverty is viewed as a major issue**
- 4. Lots of 'bad' things are correlated with a lack of money**

Summary

- 5. As far as I am aware, Australia's benefits system is the most means-tested in the developed world**
- 6. In Europe, the Welfare State was established on an universalist tradition**
- 7. Universalism is now not in fashion but it used to be widely agreed**
- 8. Similarly, benefits used to be viewed largely as transfer payments but are now viewed as expenditures**

Summary

- 9. But poverty and social exclusion is about more than 'just' money – it is also about opportunity and participation**
- 10. The UK health and other statistics illustrate some of the aspects**
- 11. Many people think that loneliness and social isolation are important subjects re older, single people**