DEPARTMENT OF FAMILY AND COMMUNITY SERVICES

OCCASIONAL PAPER NO. 6

The Australian system of social protection—an overview

SECOND EDITION

Peter Whiteford and Gregory Angenent
Department of Family and Community Services

ISSN 1444–965X

Acknowledgments
This second edition serves as an update on the original publication, incorporating more up-to-date data and reflecting a number of recent policy changes. The authors wish to acknowledge assistance and comments provided for this edition by Serena Wilson, James Jordan, Ken Oliver, Rob Bray and David Ingles.

The views and the interpretation of data expressed in this paper are those of the authors and do not represent the views of the Minister for Family and Community Services or the Department of Family and Community Services.

June 2002

Department of Family and Community Services
PO Box 7788
Canberra Mail Centre ACT 2610
Telephone: 1300 653 227

Internet: www.facs.gov.au

Contents

Figures

Tables

Executive summary

- Government income support provisions in Australia differ from those in most other developed countries (apart from New Zealand). Benefits are flat-rate and paid from general government revenue. There are no earnings-related features in the government benefit system

- Payments are made on a categorical basis, with the most important categories being the aged, people with disabilities and those caring for people with disabilities, the unemployed, lone parents, the short-term sick and war veterans. There is also an extensive system of supplementary payments for families with children. This includes assistance for around 80 per cent of all families, and higher levels of assistance for those receiving primary income support benefits or in low paid jobs. Other payments include a maternity allowance, cash payments for all low and middle-income parents caring for children, an extensive system of assistance with childcare costs, and some assistance through the taxation system. Those renting privately may be entitled to assistance with housing costs

- Benefits are usually subject to income and assets tests, but these are generous compared to the means tests applying to social assistance in other Organisation for Economic Cooperation and Development (OECD) countries. Benefits (in one form or another) are effectively available on an indefinite basis, subject to means tests. Because payments are not contributory, coverage of the system is universal, subject to a range of residence requirements. In addition, payments for the unemployed are subject to an activity test, but payments for lone parents are not. Because of the relatively relaxed income tests, it is possible to combine receipt of income support with part-time work (and full-time work for some lone parents)

- Despite the range of categories, there is a fair degree of uniformity across payment types. Benefits are paid by the Commonwealth Government, with the same rates and conditions applying across all states. Benefits are entitlements, and there is a well-developed system of rights of appeal

- In addition to government-funded cash benefits, there is a mandatory system of private superannuation for retirement, financed by an 8 per cent contribution from employers (rising to 9 per cent), and covering more than 80 per cent of the workforce. Contributions accumulate in individual accounts, hence the system is funded. It was introduced in the early 1990s and will not mature until well into the 21st century. Workers' compensation is also funded directly by employers, and most employees are also covered for paid sick leave. There is also a very high level of home-ownership, particularly among the aged

- Almost 5 million Australians (or just over a quarter of the population) receive income support payments from the government. Of these, 4.3 million are social security pensioners and beneficiaries. The remainder receive a Service Pension from the Department of Veterans Affairs (DVA)(0.3 million) or student assistance (0.35 million)

- The highest rate of receipt is among those of Age Pension age, of whom 70 per cent receive income support, compared with 18.1[1] per cent of the population aged between 15 and pension age
- In 1999–2000, 28 per cent of all income units in Australia received government cash transfers as their principal source of income, with 21 per cent receiving 90 per cent or more of their total income from cash transfers. The proportion of income units receiving 90 per cent or more of their income from cash benefits ranged from 7.2 per cent of couples with children to 33.3 per cent of lone parents
- Estimated expenditures on the social security system in 2000–01 are $55 billion, around 37 per cent of Commonwealth outlays, and 8 per cent of Gross Domestic Product (GDP). Social security spending roughly doubled from 3 to 6 per cent of GDP between 1972 and 1978, and has generally stayed above 6 per cent of GDP since then (apart from a few years in the late 1980s)
- Changes in spending on social security have been caused by a combination of factors, including the ageing of the population, increasing unemployment, family change and policy decisions. Policy changes have involved extending assistance to new groups and have substantially increased the real level of payments for most groups of customers. In the 1970s, there was a move to extension of the principle of universal assistance, particularly for Age Pensioners. In the 1980s, payments have become substantially more targeted, mainly through the reimposition of income and assets testing
- Major reform of the tax system saw the introduction of a flat rate Goods and Services Tax (GST), an increase in the tax-free threshold and reduced marginal tax rates. Concurrently, assistance provided to families through both the tax and income support systems was also simplified. These reforms reduced effective marginal tax rates produced by the interaction between social security income tests, the taxation system and other forms of assistance over the range where payments are reduced, particularly for families with children
- Increases in real rates of payments are likely to have reduced poverty among social security recipients, although the increase in the number of customers has increased vulnerability to poverty. At the same time, the proportion of social security recipients with income in addition to their payments has increased, and the level of private income has increased for many groups. Benefits have also been extended to lower-income families in the workforce
- Because of problems with available data and differences in the approach to technical issues involved in the measurement of poverty and inequality, there is no consensus in research on estimated trends in poverty and inequality in Australia. Whatever measure is used, trends in overall inequality are not strong. Poverty can be estimated to have risen or fallen depending on the measure adopted
- Spending on social security in Australia is at the low end of the scale of developed countries, reflecting the much greater emphasis in Australia on targeting assistance to low-income groups. As a result, Australia has less 'middle-class welfare' than virtually all other

developed countries. Correspondingly, levels of tax revenue in Australia are also among the lowest of all OECD economies, and the structure of the tax system is one of the most progressive in the OECD

- There will be pressures for further increases in social security spending over the next 20 to 50 years, partly due to continued population ageing and also because of policy commitments to maintaining and improving the real level of payments. Adverse labour market trends could exacerbate these cost pressures. There are factors likely to assist in maintaining the sustainability of the system, including the increases in the private income of social security recipients, and, in the longer run, the maturation of the mandatory superannuation system. The 'affordability' of the social security system, however, is fundamentally dependent on trends in the labour market and the attitudes that the community holds in regard to social security spending

1 Introduction

The objective of this paper is to provide a factual overview of the Australian system of income support within the broader context of social protection policies. The paper is intended to highlight those features of the Australian income support system and its social and institutional context that differ from those existing overseas, particularly in the United States (USA) and the United Kingdom (UK). This discussion is also particularly focused on factors that are relevant to discussions of incentive and behavioural issues. This second edition serves as an update on the original publication published in 2000, incorporating more up-to-date data and reflecting a number of recent policy changes. The paper is structured as follows.

Section 2 provides a description of the Australian income support system and puts it into the broader context of social protection. This section describes recent changes to the income support system, the current structure of assistance, and operation of the income and assets tests applied to different payments.

Section 3 outlines the Australian taxation system, highlighting differences in an international perspective. Recent reforms of the tax system are described and interactions between the tax and transfer systems analysed.

Section 4 describes trends in spending on public income support in Australia, and discusses the factors influencing the level of social security spending. The second part of this section compares the level and composition of social protection spending in Australia and other OECD countries. This discussion highlights the targeted nature of the Australian social security system and shows how the extent of targeting has increased over the past 15 years.

Section 5 looks in more detail at current patterns of receipt of pensions and allowances. This discussion is based on estimated rates of receipt of payments by age and by income unit type. This section also discusses data on duration of receipt of different payments.

Section 6 discusses changes in the Australian labour force over the past 20 years or so, including trends in unemployment and employment to population ratios for different age–sex groups. This section also compares these aspects of Australian employment performance with similar trends in other OECD countries over this period.

Section 7 discusses trends in poverty and income inequality in Australia, and also provides a range of international comparisons of the relative generosity of the benefit safety net in Australia.

Section 8 concludes by bringing together the main threads of the discussion.

2 Income support and social protection in Australia

2.1 The social protection system: overview

The Australian social protection system comprises:

- *the social security system administered by the Commonwealth Government*, which is funded from general taxation revenue and provides flat-rate, means-tested income support payments to those not expected to work (retired people, lone parents and carers), unable to work (people with disabilities and the sick) or unable to find work (the unemployed). Additional payments are available to those who pay rent in the private rental market and to people with dependant children
- *pensions for war veterans and their dependants*, which encompass both income support and compensation elements and are funded by the Commonwealth Government from general revenue
- *a mix of compulsory and voluntary occupational superannuation*, funded by employers and employees and supported by substantial tax concessions from the Commonwealth Government. On retirement, it provides either lump-sum benefits or earnings-related pensions or a mix of both
- *the health care system*, based on the national health insurance scheme, Medicare, which is financed partly through a special tax levy, partly from the Commonwealth Government's general revenue, partly by state governments and partly by contributions from patients
- *compensation arrangements for work injuries and deaths*, legislated by state/territory governments and providing for 'no-fault' earnings-related benefits (either as periodic payments or lump sums), financed by compulsory, risk-related premiums or levies paid by employers to commercial insurers or, in some states, governmental state-wide compensation funds
- *compensation arrangements for road accident injuries and deaths*, which mainly provide for lump-sum damages awards for loss of earnings capacity, medical costs, pain and suffering and defined lump-sum amounts for specific injuries. These are financed by compulsory flat-rate levies on motor-vehicle owners paid to commercial insurers
- *life and contingency insurance*, which operates through commercial insurers and is essentially voluntary in nature, although supported in some instances by tax concessions
- *paid sick leave*, which is provided and financed by employers. Usually this provides full or partial income replacement to sick employees for defined periods, often with arrangements whereby sick leave credits accumulate with increasing length of service with an employer
- *other cash and in-kind welfare benefits and services*, such as subsidised childcare, public housing and transport, domiciliary and residential care services for aged and disabled people, rebates on local government property taxes for pensioners and reductions in

charges for utilities such as water, electricity and gas. These are provided at Commonwealth, state and local levels, with the Commonwealth Government providing additional funds for them to other levels of government

In addition, there are concessions within the personal income tax system. For example, taxpayers on low incomes, those with dependant spouses, those in receipt of certain taxable pensions and allowances, self-funded retirees, and for medical expenses.

As noted, government social protection is also provided through a wide range of mechanisms, including public housing programs and policies, childcare assistance and subsidies, and other community services, such as public health programs and institutional and community support for people with disabilities. The following discussion highlights some of the most important policies.

Australia has a national **health insurance** system, with universal coverage. Medicare provides free public hospital accommodation and treatment, assistance towards the cost of medical services provided under private care in hospital (75 per cent of the schedule fee) and assistance towards the cost of out-of-hospital medical services (85 per cent of the schedule fee). Medicare is financed partly through a specific levy on individual's taxable incomes (with exemptions or reductions for low-income individuals and families), partly from the Commonwealth Government's general revenue and partly by direct payments from patients. Through the Pharmaceutical Benefits Scheme (PBS), the Commonwealth Government also subsidises the cost to patients of a wide range of prescription medicines.

In 1999–2000, Commonwealth health outlays amounted to an estimated $23.5 billion, representing just over 15 per cent of total Commonwealth Government outlays and 3.7 per cent of Gross Domestic Product (GDP).

State/territory governments have responsibility for the planning, provision and administration of publicly owned and operated health care clinics and domiciliary care services. Most acute care beds are in the state-run public hospital system. States are also responsible for the provision and financing of child and maternal health programs.

Responsibility for providing **housing assistance** to people on low incomes is shared by the Commonwealth and state/territory governments. At the Commonwealth level, the former Department of Social Security (DSS) assumed responsibility for housing assistance in March 1996, The Department of Family and Community Services (FaCS) assumed this role in October 1998, at its inception. Housing assistance is provided through two key strategies:

- the Commonwealth Government provides income support for rental housing costs in the private sector in the form of Rent Assistance (RA) payments through the social security system

- the Commonwealth and state governments fund the provision of public and community housing through the Commonwealth–State Housing Agreement (CSHA)

The CSHA also includes:

- a Crisis Accommodation Program providing accommodation for people who are homeless or in housing crisis, including families, young people, and women and children escaping domestic violence
- an Aboriginal Rental Housing Program, which provides additional housing assistance to Australia's Indigenous peoples

Community and welfare services assist such groups as families and children in need, people with disabilities, older people, indigenous people and migrants. Funding for services is provided by Commonwealth, State and Local governments. In 1997–98, services for the aged and people with disabilities accounted for just over 60 per cent of outlays by all levels of government on community and welfare services, family and child welfare services accounted for 33 per cent, with the remaining 7 per cent going to other services. All levels of government are also involved in the delivery of services, as are non-government organisations (NGOs).

The Commonwealth Government is a major provider of funds for community and welfare services but directly delivers only a small amount of them. In 1997–98, it provided just under half of the public sector funding for such services, but delivered just under 4 per cent of them. State and Territory governments provide both substantial funding and a large number of direct services (just under half of total funding and just over 27 per cent of direct services in 1997–98). Local governments have a very small role in the funding of services, but a larger role than the Commonwealth in the delivery of them (around 3.1 per cent of the funding and 7.2 per cent of services delivered in 1997–98).

There has been major growth in the number of NGOs involved in service delivery since the 1970s. Increasingly NGOs have come to be seen by governments as providing cost-effective and appropriate ways to deliver services at the local level. As part of the growing recognition of their role, government subsidies to NGOs at both Commonwealth and state levels have risen over the past two decades. Government funding in 1997–98 represented over 48 per cent of income for NGOs in receipt of government funding. The Australian community also provides considerable direct financial support to NGOs through voluntary donations.

The **Commonwealth Childcare Program** consists of a range of strategies promoting the supply, affordability and quality of childcare services. To help reduce the cost of childcare for families, the Commonwealth provides financial assistance for low to middle-income families using childcare services approved by the Commonwealth, through the Child Care Benefit (CCB). CCB can be paid to childcare service providers (and passed on to families as a fee reduction) or directly to eligible families as a lump sum at the end of the financial year.

The **Child Support Scheme** is intended to improve financial support for children of separated parents whereby both parents share in the cost of supporting their children according to their assessed capacity to contribute. Under stage one of the scheme, which began on 1 June 1988, the Child Support Agency (CSA) collected child support payable under court orders or registered agreements. Under stage two, which began on 1 October 1989, the CSA used a

legislative formula to assess child support liabilities for people who separated or who had a child born on or after that date. Payments collected by the CSA are paid out to payee parents through the income support system. Child support payments over the maintenance income free area reduce Family Tax Benefit (FTB) payments of the payee parent by 50 cents in the dollar where the payee parent receives more than the base rate.

The government income support system is part of a broader framework of social protection mechanisms, many of which are also distinctive.

Since 1992, Australia has had a compulsory, occupational-based superannuation system. Under the **Superannuation Guarantee**, employers are required to make, on behalf of their employees, prescribed minimum contributions to complying superannuation funds. The required minimum contribution was set at 3 per cent of employee earnings in 1992, rising to 9 per cent in 2002–03. Employers who fail to make prescribed minimum contributions to a complying superannuation fund must pay a tax, namely the Superannuation Guarantee Charge (SGC). The charge requires employers to pay to the Australian Taxation Office (ATO) an amount equivalent to the contributions (plus interest) that they should have paid directly to a superannuation fund on behalf of their employees, plus administrative and any late payment penalty charges. The SGC is not a tax-deductible expense to employers, whereas direct payments to complying superannuation funds generally are, hence payment of contributions is the preferred strategy. It is estimated that in 1998, approximately 91 per cent of both public and private sector employees were covered by superannuation. Most of the 9 per cent of employees with no superannuation fall below the income threshold for the Superannuation Guarantee.

A particularly distinctive feature of Australian social arrangements is the role of **labour market and workplace relations** institutions. After a series of major industrial disputes in the 1890s, the colonial governments set up a range of machinery to address issues of conciliation and arbitration of industrial disputes, and wage rates (in some states). A Commonwealth Court of Conciliation and Arbitration was established in 1904. According to Creighton and Stewart (1990), the basic legal character of the federal conciliation and arbitration system remained unchanged over the subsequent 85 years. The two primary characteristics of the system were the use of a permanent and independent tribunal funded publicly to exercise the conciliation and arbitration function, and that the system was compulsory in that either party could be compelled by the other to submit differences for resolution. The Court's resolutions were legally binding. The system developed into a mechanism for establishing and implementing minimum labour standards, including wage rates, hours of work, annual leave, sick leave, allowances and notice of termination payments. Among the most visible manifestations of this at different periods were national wage cases to determine the adjustment of wages in relation to inflation and productivity changes. The most famous case was the 'Harvester' case in 1907, where, in a case concerned with tariff protection, Justice Higgins set out the principle of the basic wage, essentially a minimum wage for an unskilled adult male labourer. This system gave considerable influence to trade unions. In the middle of the 1980s, the basic terms and conditions of around 83 per cent of the employed workforce were governed by the awards and determinations of the state and federal tribunals.

Since the late 1980s, there have been substantial changes in the structures and processes underlying industrial relations. There has been a shift in the level at which bargaining takes place, towards a hybrid system that places emphasis on agreements at the enterprise and workplace level (Hawke & Wooden 1998). Following a decision of the Australian Industrial Relations Commission (AIRC) in 1991, enterprise bargaining has become more common. Formal changes have been accompanied by shifts in the structure and role of trade unions. Membership declined from around 50 per cent of the workforce in 1976 to 25 per cent in 2000, concentrated in a small number of large industry and multi-industry unions.

A major development under the 1997 *Workplace Relations Act* was that for the first time agreements could be struck directly between employers and workers, without union intervention if desired, and would be recognised as legally binding before the Industrial Relations Commission. In May 2001, the AIRC raised the federal minimum award wage to $413.40 per week for a 38-hour week ($10.88 per hour).

Two other features of Australia's institutional and social environment are worth mentioning. Australia has long been a nation of immigrants, and high post-war migration saw the population increase from 7.4 million in 1945 to 19.2 million in 2000. Among OECD countries, Australia has the second highest share of foreign-born in the population (21.1 per cent). Most other OECD countries have immigrant shares of less than 10 per cent. For most of the 1980s, Australia had net migration rates more than twice as high as the next OECD country (excepting Germany, which had extremely high net migration in 1989).

Second, Australia is highly urbanised and has a distinctive urban structure and form, and aspects of its housing arrangements differ significantly from those in Europe and America. Most Australians live in the state capital cities. Over 55 per cent of Australians live in the largest five cities, each of which has a population of over one million. A further 9 per cent live in cities of over 100 000. All of these cities, with the exception of Townsville, either are a capital, or can be considered as part of a greater urban agglomeration of one of the capitals. Around 10 per cent live in cities of 20 000 to 100 000 persons and 14 per cent in small cities and towns (1000 to 20 000) with 11 per cent in rural locations[2]. This contrasts significantly with the experience of Europe and America. Major cities tend to play a much more important role in Australia's urban structure, with a much smaller proportion of the population living in small and medium sized cities.

The general form of cities is low density, with a domination of detached housing on individual blocks. Throughout Australia, just over three-quarters of housing stock are detached houses, although this proportion varies between locations. Another important factor has been the suburbanisation of employment, both to major employment nodes (in inner, middle and outer locations in different cities) and in a more highly dispersed fashion to small local centres.

Australia has a high level of household mobility. Between 1991 and 1996, 5.7 million people changed their location. While most of this movement is within states, some 800 000 moved between states. The largest net moves were from New South Wales and Victoria to Queensland. The pattern of such moves is complex.

Home-ownership rates in Australia have been high throughout most of the post-war period, climbing from 53.4 per cent in 1947 to around 70 per cent by 1960 and remaining around this rate for the past four decades[3]. This achievement has been underpinned by explicit and implicit government policies. These have included:

- direct aid provided to first home buyers. Limited direct assistance was available through small state government programs, and up until the 1980s the Commonwealth provided first home buyer grants. On 1 July 2000, the Commonwealth reintroduced the First Home Owner Grant (FHOG) to offset the impact of the introduction of the GST. Administered by state/territory governments, the FHOG provides a one-off lump-sum payment of $7000 to those buying their first home (for a limited time an extra $7000 is paid to those building their first home)

- large implicit subsidies provided through infrastructure provision in urban fringe land development

- exemptions for owner-occupied housing, specifically from capital gains legislation and taxation on imputed rental value. It is also treated concessionally in pension and other social security assessment

The private rental sector in Australia has always been a significant provider of housing. In 1997–98, it was estimated the sector provided 1.46 million dwellings, around 20 per cent of all units. The sector, while traditionally having been viewed as a 'stepping stone' to homeownership, caters for a diverse set of different needs. The sector plays particularly important roles in providing housing for single-person households and lone parents.

The estimated 370 000 public rental dwellings in Australia represent around 5 per cent of housing stock. This sector is largely funded by the Commonwealth Government, and managed by state governments under the CSHA. The sector grew rapidly in the post-war period, responding to a range of needs including slum clearance and the need for housing associated with industrial development policies as well as responding to the overall post-war housing shortage. Over the past two decades, the role of the sector has changed dramatically, and currently 80 per cent of residents receive rebated rents, generally set at between 20 and 25 per cent of income. It is estimated that the average value of these rebates is $73 per week.

2.2 Income support: overview and objectives

Government income support has a long history in Australia, with the first Age Pensions being paid in 1901, initially in the state of Victoria and then in New South Wales, with Queensland following in 1908. The Commonwealth introduced Age Pensions in 1909, invalid pensions in 1910, a maternity allowance in 1912 and repatriation benefits for veterans in 1918. State unemployment insurance was introduced in Queensland in 1922 and family allowances were introduced in New South Wales. Commonwealth family allowances were introduced in 1941, widows pensions in 1942, and unemployment and special benefits in 1945.

Consideration of government policy statements suggests that there are two long-standing values that provide the basis of the Australian income support system. One is the recognition of government and community responsibility to assist those in need. The other is that private provision outside the social security system is to be encouraged as far as possible, with the income support system seen primarily as a safety net. This distinguishes Australia from most other developed countries—the **primary** focus of Australia's social security system is protection against poverty[4]. In most other OECD countries, the primary principle is one of income maintenance across an individual's life-cycle, although many have poverty relief as an important additional objective.

As a consequence, government income support provisions in Australia differ from those in most other developed countries (apart from New Zealand). Benefits are flat-rate and paid from general government revenue. There are no earnings-related features in the government benefit system. Payments are made on a categorical basis, with the most important categories being the aged, people with disabilities and those caring for people with disabilities, the unemployed, older long-term unemployed without recent workforce experience, partners of these groups, lone parents, older widows, the short-term sick, and war veterans. There is also an extensive system of supplementary payments for families with children. This includes direct cash assistance for around 80 per cent of all families, and higher levels of assistance for those receiving income support benefits or in low paid jobs. Other payments include a maternity allowance, assistance with childcare costs, and those renting privately may be entitled to assistance with housing costs.

Benefits are subject to income and assets tests, but these tests are generous compared to the means tests applying to social assistance in other OECD countries, probably reflecting the absence of social insurance arrangements. Benefits (in one form or another) are effectively available on an indefinite basis, subject to the means tests. Because payments are not contributory, coverage of the system is universal, subject to a range of residence requirements. Mutual obligations are a more recent feature, requiring certain benefit recipients to participate in activities of value to the community. While the unemployed are subject to an activity test, payments for lone parents are not. Because of the relatively relaxed income tests, it is possible to combine receipt of income support with part-time work (and full-time work for some lone parents)[5].

Responsibility for income support policy rests predominantly at the Commonwealth level. In 1999–2000, Commonwealth spending on 'social security and welfare' amounted to 93 per cent of total outlays of all levels of government devoted to that purpose, with 99.5 per cent of personal benefit payments in this category being Commonwealth outlays. Other aspects of social protection are more evenly shared between the Commonwealth and the states. Commonwealth health spending is 63 per cent of the total, and Commonwealth spending on 'education' and 'housing and community' amenities is 32 and 26 per cent of their respective totals. Around 68 per cent of total government outlays are the responsibility of the Commonwealth[6]. As a Commonwealth responsibility and as required by the Constitution, levels and conditions of income support payments are uniform across the states.[7]

2.3 Major developments in income support

Means testing has long been a fundamental feature of the Australian system of income support, although its history has been chequered. Like the early pension systems of New Zealand and Scandinavia, Age Pensions in Australia were income-tested at their inception. In fact, consideration had been given to a social insurance system, but this approach was explicitly rejected as being administratively costly and providing insufficient coverage (Neild 1898). Following Federation, the Royal Commission of 1905–06 also rejected a social insurance scheme based on the German model as inappropriate in Australia. A social insurance plan was again put forward in 1928, but lapsed when the government lost office in 1929. In 1938, Federal Parliament actually passed legislation introducing such a scheme, but the legislation lapsed at the outbreak of World War II. The more comprehensive system of payments introduced in the early 1940s was non-contributory and financed from general revenue[8]. With the exception of child endowment, payments were means-tested.

During the 1960s and 1970s, various social insurance approaches were again recommended. There was also a range of initiatives to abolish the means test on Age Pensions. Major steps towards a universal Age Pension were made in 1969, with the introduction of the 'tapered means test' with a 50 per cent rather than a 100 per cent withdrawal rate[9]. In 1972, the pension free areas were doubled, in 1973 the newly elected government abolished the means test for those aged 75 years and over, and in 1975 the government abolished the means test for those aged 70 to 74 years. In 1976, the existing means test was replaced by a test on income alone. During this period, a National Superannuation Inquiry was set up, and in 1976 it recommended the introduction of a free-of-means-test basic pension, supplemented by an earnings-related pension, and a supplementary pension for those below a specified minimum, to be financed by a compulsory contribution. These proposals were formally rejected in 1979.

The move towards a universal Age Pension in the first half of the 1970s was accompanied by substantial increases in real rates of payments and the introduction of new benefits (for example, for lone mothers). Tax rebates for children were cashed out in the form of increased family allowances. These initiatives also coincided with substantial increases in unemployment, and a large increase in overall social security spending. From the second half of the 1970s on, attention focused on reducing the federal budget deficit. The rates of the income-test-free pension were frozen in 1978, and in 1983 the pension for those aged 70 years and over was again subjected to the income test. In 1985, the assets test on pensions was reintroduced.

The second half of the 1980s saw the establishment of a Social Security Review, which made wide-ranging recommendations for reform of all major aspects of the income support system. The review argued, however, that the opportunity for introducing a government social insurance system for the aged had passed (Foster 1988). The second half of the 1980s also saw renewed emphasis on increased targeting. This was achieved through a wide range of mechanisms, including tightening of eligibility conditions for some payments, income-testing of the then universal cash payment for children, and directing increased assistance to defined

target groups, including low-income families with children, and income support recipients with high private rental costs. There has also been increased attention to improving compliance and reducing fraud. The Child Support Scheme was introduced to improve collection of maintenance payments, and the Jobs, Education and Training (JET) scheme was established to assist lone parents seeking employment on a voluntary basis.

The pace of change to income support continued in the 1990s. Major policy initiatives included the introduction of 'deeming' of a minimum rate of return on financial assets, and the integration of the various income-tested family payments to improve take-up of assistance, particularly among those in low paid work.

2.4 Recent changes to the income support system

Very substantial changes were made to the structure of income support for those of working age in July 1995. In essence, these changes involved the partial individualisation of the benefit system for unemployed couples. More specifically:

- to encourage part-time and casual work, the allowance income test withdrawal rate was modified, by lowering the maximum withdrawal rate from 100 per cent to 70 per cent for income over a $140 per fortnight threshold and by abolishing the earnings disregards

- to recognise the workforce potential of married women, there was a requirement that both members of a couple qualify for payment in their own right, accompanied by:

  — the introduction of Parenting Allowance

  — the restriction of Partner Allowance to people born before 1 July 1955 with no recent workforce experience

  — a general requirement for partners born after 1 July 1955 who do not have dependant children to qualify for an activity-tested unemployment payment

  — changed income-testing arrangements for allowee couples, so that each partner is assessed on their own income, with one partner's income affecting the other's only if it is sufficient to preclude the payment of their own allowance

Since 1996, the government has made a range of decisions that, while maintaining the basic structure of income support for unemployed people, have achieved significant savings by tightening administrative requirements and encouraging greater self-reliance. The major measures were aimed at tightening the job search obligations placed on Newstart allowees. They sought to ensure that customers seek out and accept work opportunities that provide a greater level of self-support, including part-time and casual work opportunities, and accept assistance that will enhance their employment prospects.

The 1996–97 Budget also included measures to place greater emphasis on encouraging unemployed people to undertake voluntary work, in view of its contribution to enhancing skill levels and self-esteem. Elements included:

- customers aged 50 or over were allowed to do unlimited full-time voluntary work (32 hours or more) with an approved organisation and still remain qualified for payment
- customers aged 50 or over also satisfied the activity test if they did a combination of voluntary work with an approved organisation and suitable paid work amounting to a total of 40 hours
- customers aged under 50 who had been on benefit for 12 months or more and who were not selected for intensive employment assistance were able to do unlimited full-time voluntary work with an approved organisation
- customers aged under 50 who had been on benefit for at least three months were able to do up to 12 weeks full-time voluntary work with an approved organisation

In 1997, the government introduced a new 'Work for the Dole' scheme to provide young people with the opportunity to acquire work experience, skills and habits on projects of value to local communities. While most participants were expected to be volunteers, only Newstart recipients on the maximum rate of payment would be required to participate. Those required to participate would be subject to activity test breach provisions for failure to participate without a reasonable cause. The scheme involved:

- participants aged 18 to 20 years being required to work for 24 hours per fortnight
- those aged 21 and over being required to work for 30 hours per fortnight

In recognition of the additional costs associated with participating in Work for the Dole projects, participants were eligible for an extra $20 a fortnight in addition to their Newstart allowance.

The 1998–99 Budget saw further enhancements to mutual obligations for young unemployed people. Those aged 18 to 24 years and in receipt of unemployment benefits for more than six months would be required to supplement their job search with an additional approved activity, which might be:

- part-time work
- part-time education or training (including literacy and numeracy training)
- job search assistance or intensive assistance under the new Job Network
- the JET Program or
- relocation to another area to enhance job prospects

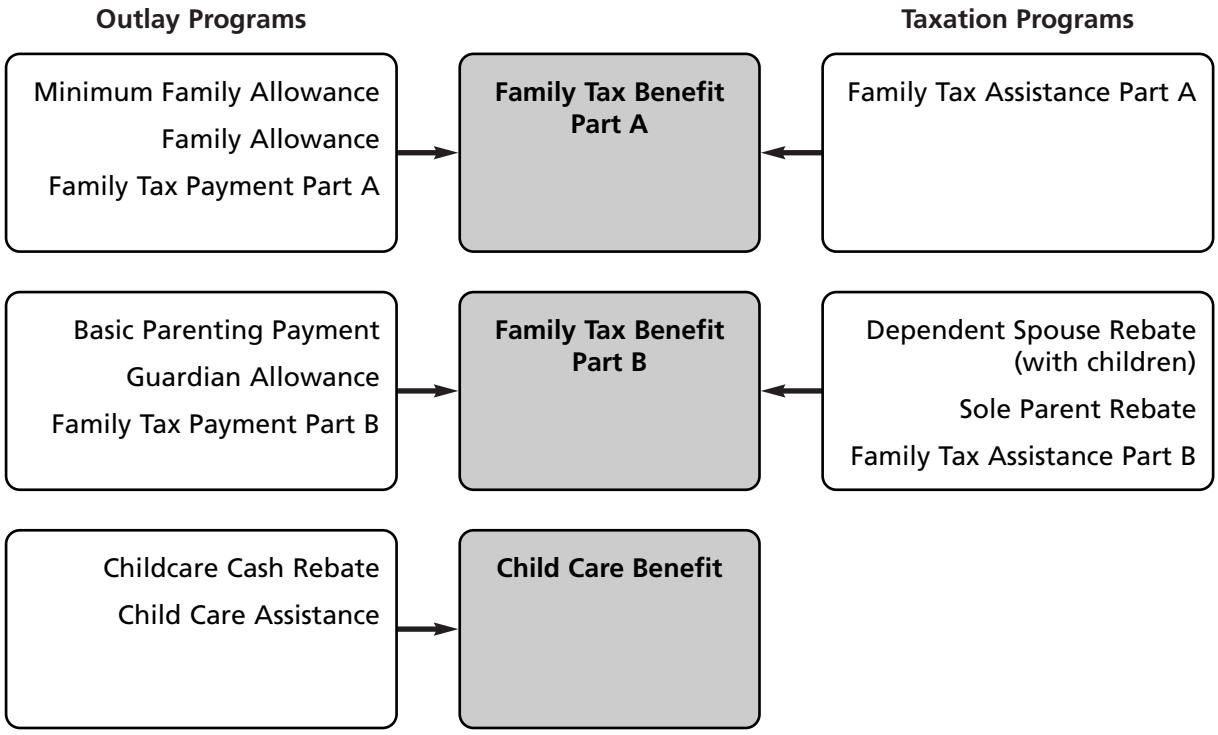
The new Youth Allowance (YA), implemented on 1 July 1998, simplified income support for young people and provided incentives to remain in education and training. YA consolidated a number of payments for 18 to 24 year olds, including Austudy, Youth Training Allowance and Sickness Allowance. Other elements included:

- the requirement for those aged under 18 to be in full-time education or training unless they were specifically exempted (from 1 January 1999)
- the extension of rent assistance to students

Again in 1999, further refinements of mutual obligations for the unemployed were implemented. The requirement to undertake a mutual obligation activity in addition to job search was extended to unemployed people up to the age of 35 for those unemployed for more than 12 months.

In July 2000, sweeping changes to the Australian tax system were accompanied by substantial reform of various forms of assistance provided to families through both the income tax and social security systems. Together these changes provided income tax cuts and substantially improved work incentives for low and middle-income families, and simplified the complex array of assistance previously provided. Figure 1 (below) presents the simplification of assistance to families.

Figure 1: Simplification of payments made to families



Previously, the 12 forms of assistance for families outlined above were delivered through Centrelink, the ATO and the Health Insurance Commission. A new Family Assistance Office (FAO) was set up within the ATO to deliver the new simplified set of family assistance programs.

As part of the reforms, all social security and veterans' pensions and other income support payments and allowances were increased. Specifically, the increase comprised:

- a 4 per cent increase in the maximum rate of all income support payments provided to social security and veterans' pensioners, other social security recipients and students in receipt of Commonwealth income support, including additional payments and allowances such as Child Disability Allowance and Mobility Allowance
- a 2.5 per cent increase in the income-test-free areas applied to social security, veterans' and student income support payments

Recognising that welfare dependency among people of workforce age had increased, the government announced in 1999, its intention to review Australia's welfare system. A reference group was formed to consult with the community and provide advice to government. The 2001–02 Budget detailed the first steps in the welfare reform process expected to take several years to implement. Essentially, all aspects of the Australians Working Together (AWT) package were aimed at reducing the identified upward trend in welfare dependency among those of workforce age through a mix of incentives, obligations and added assistance. Target groups include older unemployed people, Indigenous Australians, people with a disability and lone parents. Elements of the package include:

- the introduction of a working credit of up to $1000. Each fortnight, those on unemployment benefits will accumulate up to $48 in credits that can be used to offset earnings through part-time, casual and intermittent work
- the establishment of a training credits scheme allowing eligible jobseekers to accumulate up to $800, which can be used to gain work-related skills
- the introduction of a new literacy and numeracy supplement of $20.80 a fortnight to help with the associated costs of attending approved literacy and numeracy training
- funding for an additional 5 300 childcare places in Outside School Hours Care (OSHC)

Extension of mutual obligations for those in receipt of additional incentives and assistance was also implemented. Notably, and for the first time, lone and partnered parents in receipt of Parenting Payment will be required to:

- attend an annual interview with a Centrelink Personal Adviser, for those whose youngest child is aged between 12 and 15 years (from September 2002)
- undertake an approved activity for around six hours a week, for those whose youngest child is aged between 13 and 15 years (from July 2003)

- attend an annual interview at Centrelink, for those whose youngest child is aged between 6 and 15 years (from July 2003)

2.5 The current structure of income support

The government income support system comprises:

- income support payments divided between two classes: pensions and benefits[10]. These are designed to provide a subsistence standard of living for an adult. An individual cannot receive more than one income support type at a time
- payments in respect of dependant children. These are designed to assist families with the additional costs associated with caring for children
- Rent Assistance, paid at five maximum rates according to family composition and designed to assist income support recipients with the cost of renting in the private market
- income supplements including concessions, designed to assist with various other costs such as living in a remote area

Table 1 provides details of the major income support payments and a number of related programs. The table provides details of the current level of benefits, the major eligibility criteria for payments, and the parameters of the income tests[11]. Rebates available to eligible income support customers through the taxation system are also outlined.

As noted, social security payments are funded through general revenue and are paid at flat maximum rates. Income support payments and most supplementary payments are income and assets-tested[12]. Eligibility for different income support payments is based on the reason claimants are unable or not expected to support themselves through paid work. These reasons are illness or disability, parenting or caring responsibilities, age or unemployment, and participation in full-time education or long-term training. Only the unemployment payments, currently Newstart (NSA) and Youth Allowance, are subject to an activity test, although eligibility for Carer Payment is based on the level of care actually provided.

Table 1: Income support and related payments and programs, 20 March to 30 June 2001

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Pensions					
Age Pension					
Single	$402.00 pf	$106 pf	40%	$1125.50 pf	Males 65 years and over, Females 61.5 years and over.
Couple	$335.50 pf each	$188 pf combined + $24.60 pf for each child	20% each	$1880.00 pf combined + $24.60 pf for each child	
Disability Support Pension					
Single					
<18 years					
At home	$240.80 pf	$106 pf	40%	$1125.50 pf	Aged 16 to Age Pension age, inability to work for at least the next 2 years as a result of impairment, with rating of at least 20 points on impairment tables.
Independent	$372.10 pf				
18–20 years					
At home	$272.90 pf				
Independent	$372.10 pf				
20 years and over	$402.00 pf				
Couple	$335.50 pf each	$188 pf combined + $24.60 pf for each child	20% each	$1880.00 pf combined + $24.60 pf for each child	
Wife Pension	$335.50 pf	$188 pf combined + $24.60 pf for each child	20% each	$1880.00 pf combined + $24.60 pf for each child	Wives of above, not qualified in own right. Closed to new applicants.
Carer Payment					
Single	$402.00 pf	$106 pf	40%	$1125.50 pf	Providing constant care permanently or for an extended period.
Couple	$335.50 pf each	$188 pf combined + $24.60 pf for each child	20% each	$1880.00 pf combined + $24.60 pf for each child	
Parenting Payment Single	$402.00 pf	$106 pf +$24.60 pf for each child	40%	$1125.50 pf	Lone parent with dependant child under 16
Mature Age Allowance	See Age Pension	See Age Pension	See Age Pension	See Age Pension	Long term unemployed aged 60+ and less than Age Pension age
Mature Age Partner Allowance	$335.50 pf	See Age Pension	See Age Pension	See Age Pension	Member of a couple whose partner is receiving Mature Age Allowance

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Allowances					
Newstart Allowance					
Single, 21 or over					
no children	$357.80 pf	$62 pf	$62 to $142 pf, 50%, $142 and over, 70%. Partner income exceeding cut out point, 70%.	$596.00	Unemployed and actively looking for work. Aged 21 and over, except for saved cases.
with children	$386.90 pf			$637.57	
Single, 60 or over, after nine months	$386.90 pf			$637.57	
Couple	$322.80 pf each	$62 pf each		$546.00 each	
Partner Allowance	See Newstart	See Newstart	See Newstart	See Newstart	For partners of income support recipients with no recent workforce experience
Parenting Payment Partnered—Benefit	$322.80 pf	Partner is not a pensioner $62 pf $546 pf (Partner's income)	Partner is not a pensioner Customer's income $62 to $245 pf, 50% Over $245 pf, 70% Partner's income $546 pf and over, 70%	Customer's income $575.43 pf Partner's income $1007.15 pf Combined income $1121.43 pf	Dependant child <16
		Partner is a pensioner Combined income $124	Partner is a pensioner Combined income between $124 and $490 pf, 25%, over $490 pf, 35%	Combined income $1150.86 pf	

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Allowances					
Youth Allowance Single, no children <18 at home <18 away from home 18+ at home 18+ away from home Single with children Couple, no children Couple with children 21+ long term unemployed or migrant English students commencing full-time study Single at home Single away from home Couple, no children	 $158.80 pf $290.10 pf $190.90 pf $290.10 pf $380.10 pf $290.10 pf $318.60 pf $234.50 pf $318.60 pf	 Unemployed: $62 pf Full time students: $236 pf $352.30 pf	 Unemployed: $62 to $142 pf, 50%. $142 and over, 70% Students: $236 to $316, 50% $316 and over, 70%. Income bank credits can be used to offset any earned income that exceeds $236 pf up to $6000 pa Partner's income exceeding cut out point, 70%	 Various	 Students <25, unemployed 16–20 years. Rate reduces if parental income exceeds $25 150 plus $1230 to $7585 for other children. No income or assets test if parent in receipt of income support
Widow Allowance	See Newstart	See Newstart	See Newstart	See Newstart	Widowed, divorced or separated women, aged 50+ with no recent workforce experience
Sickness Allowance	See Newstart	See Newstart	See Newstart	See Newstart	Aged between 21 and Age Pension age, temporary incapacity to work or study, with medical certificate

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Allowances					
Special Benefit	Generally as for Newstart or Youth Allowance	Nil	100%		Ineligible for any other income support payment and unable to earn a sufficient livelihood due to reasons beyond their control
Bereavement Allowance	$402.00 pf	See Age Pension	See Age Pension	See Age Pension	People whose partner has died, living with partner immediately before death, paid for maximum of 14 weeks
Austudy Payment					
Single	$290.10 pf	$236.00 pf	$236 to $316, 50% $316 and over, 70%. Income bank credits can be used to offset any earned income that exceeds $236 pf up to $6000 pa	Various	Persons undertaking qualifying study, aged 25+
Single, with children	$380.10 pf				
Partnered, no children	$290.10 pf				
Partnered, with children	$318.60 pf				
Long-tern unemployed commencing full-time study					
Single	$352.30 pf				
Partnered, no children	$318.60 pf				
Abstudy	Various	$236 pf	See Youth Allowance	See Youth Allowance	Students of Aboriginal of Torres Strait Islander descent, studying an approved course at an approved education institution, and not receiving other government assistance for study

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Other programs					
Child Care Benefit					
Approved care		$28 200 pa	Withdrawal rate dependent on a number of factors	Approved care—minimum rate payable for incomes over the following thresholds 1 child—$80 980 pa 2 children—$87 832 pa 3+ children—$99 794 pa +$16 665 pa for fourth and subsequent children	Approved or registered care has been used, children born after 1 January 1996 have age appropriate immunisation or exemption, parents meet work/study/ study/training test
non-school child	$122.00 pw				
school child	$103.70 pw				
minimum rate	$20.50 pw				
Registered care		Not subject to an income test			
non-school child	$20.50 pw				
school child	$17.43 pw				
Family Payments					
Family Tax Benefit Part A		$28 200 pa	30% until reduction equals base rate	Income limit beyond which only base rate is paid depends on age and number of children	Dependant child <21 or dependant full-time student aged 21–24 years
For each child <13	$116.20 pf				
13–15 years	$147.28 pf				
16–17 years	$37.38 pf				
18–24 years	$50.12 pf				
0–24 years in an approved care organisation	$37.38 pf				
Base Rate		$73 000 pa + $3000 pa for each subsequent Family Tax Benefit child	30% until reduced to nil	Cut-out point depends on age and number of children	
0–18 years	$37.38 pf				
0–24 years	$50.12 pf				
Family Tax Benefit Part B					
Youngest child aged <5	$99.82 pf	$1616 pa for secondary earner in partnered relationship. Primary earner in a partnered relationship and lone parents not subject to an income test	30%	Youngest child under 5, $10 291. Youngest child aged between 5 and 18, $7663	Dependant child <16 or dependant full-time student aged 16–18 (cannot be receiving Youth Allowance or similar payment)
Youngest child aged 5–15(or 16–18 if a full-time student)	$69.58 pf				

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Family Payments					
Large Family Supplement FTB(A)	$7.98 pf paid for fourth and subsequent children			See FTB(A)	See FTB(A) See FTB(A)See
Maternity Allowance	One off payment of $780 per child	See FTB(A)	See FTB(A)	See FTB(A)	Paid for each new born child to families eligible for FTB(A)
Maternity Immunisation Allowance	One off payment of $208 per child	See FTB(A)	See FTB(A)	See FTB(A)	Paid for 18 month old children who are fully immunised
Multiple Birth Allowance					
Triplets	$97.16 pf	See FTB(A)	See FTB(A)	See FTB(A)	Three or more children born during the same birth, ceases when children turn six
Quadruplets or more	$129.64 pf				
Double Orphan Pension	$41.10 pf	No income or assets test			Care and control of double orphan aged <16
Carer Allowance	$82.00 pf	No income or assets test			Provision of daily care to person with a disability causing substantial functional impairment
Tax measures					
Dependant Spouse Rebate					
No children	$1365 pa	No income test on primary earner, $282 pa for dependant spouse	25% for income of spouse	$5741 of spouse income	Taxpayers with a dependant spouse
Low Income Rebate	$150 pa	$20 700 pa	4%	$24 450 pa	Low income earners
Aged Pensioner and Low Income Aged Person Rebate					
Single	$2230	$20 000	12.5%	$37 840	Taxpayers of Age Pension age in receipt of certain taxable pensions, allowances or benefits and self-funded retirees
Couple	$1602	$16 306		$29 122	
Couple, illness separated	$2040	$18 882		$35 202	

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Tax measures					
Pensioner Rebate					
Single	$1608	$15 459	12.5%	$28 323	Taxpayers below Age
Couple	$1155	$12 795		$22 035	Pension age in receipt of
Couple, illness separated	$1471	$14 653		$26 421	certain taxable pensions, allowances or benefits
Beneficiary Rebate	17% of difference between allowance received and tax threshold	No direct income test. Effectively reduced by allowance income test	n/a	n/a	Taxpayers whose income includes certain benefits
Supplementary payments					
Rent Assistance	75% of rent above threshold up to:	Withdrawn after primary payment	See applicable primary payment	After cut-out point of primary payment	Above rent levels:
Single, no children sharer	$88.00				$78.00 pf
Single, no children,	$58.70				$78.00 pf
Single, 1 or 2 children	$103.04				$102.62 pf
Single, 3 or more children	$116.48				$102.62 pf
Couple, no children	$82.80				$127.00 pf
One of a couple, temporarily separated due to illness, no children	$88.00				$78.00 pf
One of a couple, temporarily separated, no children	$82.80				$78.00 pf
Couple, 1 or 2 children	$103.04				$151.90 pf
Couple, 3 or more children		$116.48			$151.90 pf

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Supplementary payments					
Pharmaceutical Allowance					
Single	$5.80 pf	Withdrawn after primary payment	'Sudden death'	Pension/Allowance cut-out	Payable to pensioners, long-term allowees aged 60+, or allowees temporarily incapacitated for work or study
Couple	$2.90 pf each				
Remote Area Allowance					
Single	$18.20 pf	Paid while receiving income support	'Sudden death'	Pension/Allowance cut-out	Resident of TAX ZONE A, SPECIAL ZONE A or SPECIAL ZONE B
Couple	$15.60 pf each				
Each child	$7.30 pf				
Telephone Allowance	$68.80 pa (shared between couples)	Paid while receiving income support	'Sudden death'	Pension/Allowance cut-out	Telephone subscribers eligible for a Pensioner Concession Card (PCC)
Mobility Allowance	$61.90 pf	No income or assets tests	n/a	n/a	People with a disability aged 16+ who cannot use public transport without substantial assistance and undertaking employment, training, jobsearch activities or voluntary work
Pensioner Concession Card	Concessions include telephone, post and pharmaceuticals. Reduced fares on public transport, property/water rates, energy bills, vehicle registration and private charges	Withdrawn after primary payment	'Sudden death'	Pension/Allowance cut-out	Pensioners and older long term allowees

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Supplementary payments					
Pensioner Education Supplement					
Full-time	$62.40 pf	No income or assets tests	n/a	n/a	Income support recipient because a person is disabled, a lone parent, carer, widow allowee, widow B pensioner or wife pensioner partnered to a disability support pensioner, and studying an approved course at an approved educational institution
Part-time	$31.20 pf				
Health Care Card					
Single	Concessions on prescription pharmaceuticals	Withdrawn after primary payment unless awarded to low-income earner	'Sudden Death'	Pension/Allowance cut-out unless awarded to low-income earner; Single $393.75 pw Couple (combined) $655.00 pw Each child $42.50 pw	Recipients of various allowances and low-income earners
Couple					
Each child					
Commonwealth Senior's Health Card					
Single	Concessions on prescription pharmaceuticals	$41 000 pa	'Sudden Death'	$41 000 pa	Persons of Age Pension age who do not receive a pension
Couple		$68 676 pa		$68 676 pa	
Couple, illness separated, each		$37 615 pa		$37 615 pa	
Each dependant		$639.60 pa		$639.60 pa	

Table 1: Income support and related payments and programs, 20 March to 30 June 2001 (continued)

Payment/Program	Level of benefit/ allowance	Income test free area/ Disregard	Withdrawal rate	Cut-out point	Eligibility
Supplementary payments					
Pension Bonus Scheme	One off lump-sum payment, amount based on how long pension was deferred from date of registration, rate of pension and if partnered	See Age Pension	See Age Pension	See Age Pension	People who defer claiming the Age Pension

Note: Does not include every Commonwealth Government benefit.

Participation in full-time paid work does not itself preclude eligibility from income support for pensioners. To receive unemployment payments (NSA and YA), recipients must be looking for suitable paid work. While all payments (except Special Benefit) allow recipients to combine some earnings with income support, restrictions have been progressively relaxed to improve work incentives and maximise the participation of recipients in the part-time labour force, which is commonly seen as a stepping-stone to full-time work.

Rates and income and assets tests are standardised for pensions and are more generous than the standard rates and means tests for allowances. For example, the free area for single pensioners (as at June 2001) was $106 per fortnight and just $62 per fortnight for allowees. Full details of rates of payment and income test minutiae are detailed in Table 1, while asset threshold amounts and disqualifying limit particulars can be found in Table 2. Furthermore, a number of other conditions for pensions are more generous than for allowances. The classification of payments to people of workforce age into pensions and allowances reflects historical developments.

Family payments are payable to families with dependant children. Family Tax Payment Part A (FTB(A)) is designed to assist with the additional costs faced by families with children as against those without. It is subject to an income test, but at a relatively high level. The more than minimum rate of FTB(A) was designed to provide more substantial assistance towards the cost of children in low-income families and to ensure that families in low paid work are not worse off financially than those entirely reliant on income support. There are a number of supplementary family payments. Family Tax Payment Part B (FTB(B)) is specifically designed for single-income families and Rent Assistance is payable to income support or FTB recipients in private rental accommodation.

Most payments are made fortnightly by direct credit to customers' accounts held at banks and other financial institutions. Almost all payments are adjusted in line with movements in the Consumer Price Index (CPI). All pensions, plus Parenting Payment, Maternity Allowance and RA, are adjusted twice yearly (in March and September), while family payments and Child Disability Allowance are adjusted once a year (in January). The Government has also legislated to maintain the single rate of pension at a minimum of 25 per cent of Male Total Average Weekly Earnings (MTAWE) with flow-ons to the married rate of pension. The single adult rate of pension (after indexation) cannot by law fall below 25 per cent of the annualised MTAWE figure. While CPI indexation is intended to protect the real purchasing power of the pension and benefits, maintaining the pension at 25 per cent of MTAWE aims to ensure that pensioners share in community living standards.

Until June 1997, the social security system was administered by the then DSS. All social security payments and services are now administered by Centrelink. As well as administering social security payments and services, Centrelink is responsible for Childcare Assistance, some employment assistance services previously provided by the Commonwealth Employment Service (CES) and student assistance programs of the Department of Education, Science and Training (DEST).

From July 1997, DSS continued to have responsibility for social security policy development, research and evaluation, the design of social security programs and the provision of advice to the Minister for Social Security. It established a Business Partnership Agreement (BPA) with Centrelink to deliver social security programs and services under a 'purchaser–provider' arrangement. In October 1998, DSS was replaced by the new Department of Family and Community Services, which absorbed all the responsibilities of DSS, plus policy responsibilities for childcare, assistance for people with disabilities, and family services. The Child Support Agency (CSA) also forms part of the department, as did CRS Australia (formerly the Commonwealth Rehabilitation Service) until late 2001.

Current income and asset test arrangements

The definition of 'income' for the purposes of calculating a social security entitlement includes employment income, investment income and 'deemed' income (certain investments and loans are assigned a notional minimum rate of return that represents an amount an investor could expect to receive). The income taken into account for the income test is gross income before taxation.

'Assets' are generally a person's property. Certain items of property are not included as assets, the most significant of which is a person's principal residence[13]. Other items may be disregarded depending upon their nature and the use to which they are put.

The rate of pension is calculated under both the income and assets tests. The test that results in the lower rate is the one that applies. A vast majority of pensioners are assessed under the income rather than the assets test. In addition to assets and income tests, Newstart allowees are also subject to a liquid assets test where cash holdings may require a waiting period to be served before payments can be made.

The amount of income a person may receive before their pension is reduced (called the 'free area') is dependent upon their marital status and number of dependant children. As at June 2001, a single person may receive $106 per fortnight before pension is reduced, a couple may receive $188 per fortnight (combined) before their pensions are reduced, and an amount of $26.40 per fortnight is added for each dependant child. Income in excess of these free areas reduces their pension entitlement by 40 cents in the dollar (for a single person) and 20 cents each in the dollar for a couple. The operation of the income test produces 'cut-out points', which are the private income levels at which benefit payments are reduced to zero. At June 2001, these 'cut-out points' are $1125.50 per fortnight for a single person and $1880.00 per fortnight for a couple. The pension income cut-out points (with the exception of the child deduction amount) change in March and September, in line with CPI changes to the base pension amounts, and in July in line with CPI changes to the free areas.

Family Tax Benefit payments are assessed each calendar year on the basis of taxable income in the preceding financial year (1 July to 30 June). Recipients are required to report certain changes of circumstances that may result in a change in income, and a reassessment of their benefits.

Assets tests

As can be seen from Table 2, the assets tests differ for pensions, allowances and family payments. The assets thresholds are the same for pensions and allowances, but a pension is tapered above these thresholds, by $3 per fortnight for every $1000 of assets. For allowance recipients, there is a 'sudden-death' disqualification. The amount of assets a person may have before pension is reduced is dependent upon marital status and home ownership. A person's principal residence is not included in the assessment of assets.

Table 2: Assets test thresholds and disqualification limits (June 2001)

	Asset threshold amounts	**Asset disqualifying limits (for pensions)**
Home Owners		
Single	$133 250	$269 250
Couple (combined)	$189 500	$415 500
Illness separated couple (combined)	$189 500	$461 500
Non Home Owners		
Single	$288 750	$364 750
Couple (combined)	$285 000	$511 000
Illness separated couple (combined)	$285 000	$557 000

The assets test threshold amounts change in July each year. The assets test disqualifying limits are altered in March and September as a result of CPI increases to the basic rate of pension and in July each year as a result of changes to the assets test threshold amounts (indexed to the CPI).

Payments to families in respect of dependant children, including FTB(A), FTB(B), CCB and Maternity Immunisation Allowance (MIA) are not subject to an assets test.

Special provisions exist to ensure that clients are not placed in severe financial hardship due to the normal application of the assets test. The hardship rule allows for the value of particular assets to be disregarded and for the rate of pension to be determined in a special manner. In order to apply the rules, a client must be considered to be in severe financial hardship and have no other available course of action that would alleviate that hardship.

3 The Australian taxation system

3.1 The Australian tax system in perspective

Partly as a consequence of the unusual nature of its system of income support, the Australian tax system also differs significantly from those of other OECD countries. Total tax revenue in 1997 was 29.8 per cent of GDP compared to an OECD average of 37.2 per cent, only exceeding the levels in Turkey, the United States, Japan, Korea and Mexico (OECD 2000b).

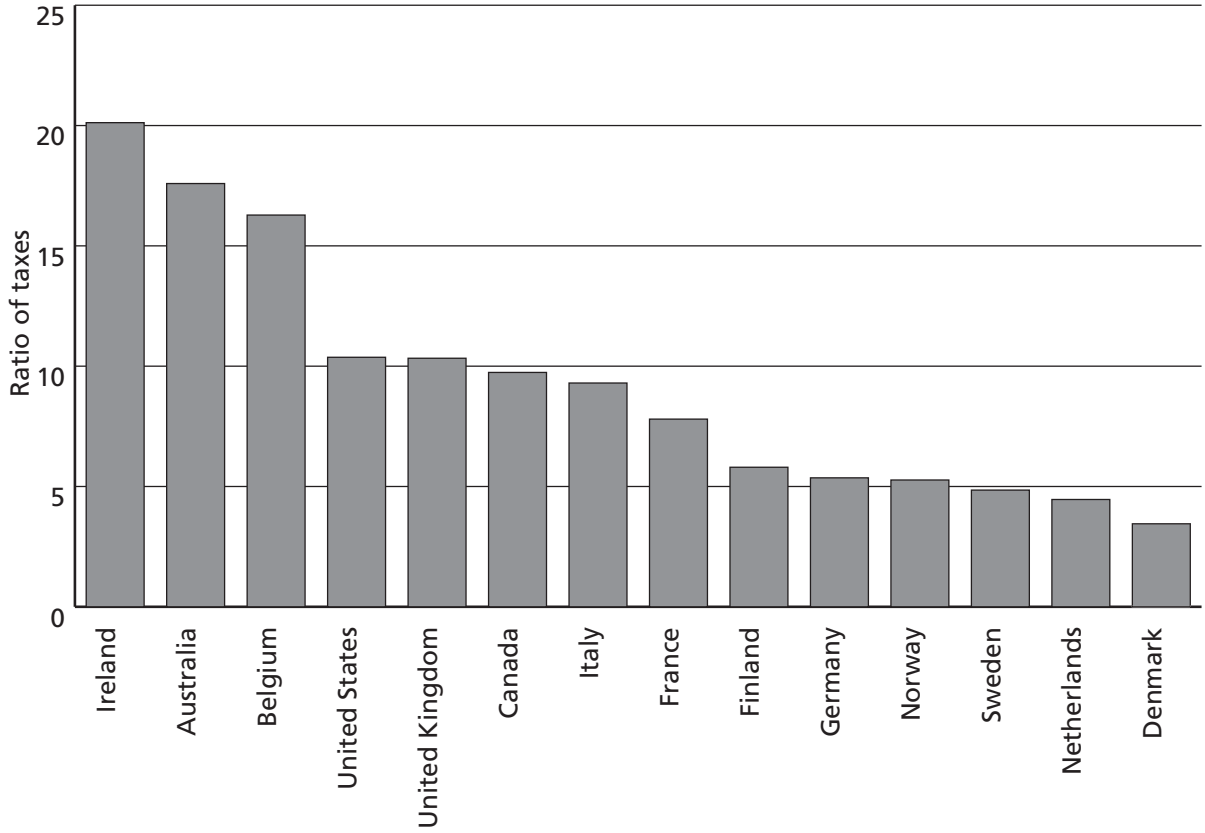
Taxes on income and profits accounted for 56.6 per cent of total revenue compared to an OECD average of 35.4 per cent. However, there are no social security contributions in Australia (apart from the Medicare Levy), while such contributions account for about 22 per cent of total revenue and 10 per cent of GDP for the OECD as a whole. Taxes on corporate income are well above the OECD average (4.4 per cent of GDP in Australia compared to an average of 3.3 per cent overall). Because of the lower overall level of tax in Australia, corporate taxes are nearly twice as high as the OECD average as a proportion of tax revenue.

Another distinctive feature of the Australian tax system up until July 2000 was the absence of a broad-based consumption tax such as a value-added tax (VAT), and taxes on general consumption accounted for only 2.7 per cent of GDP compared to an OECD average of 6.6 per cent. Taxes on goods and services accounted for 8.2 per cent of GDP compared to an OECD average of 12 per cent. While the empirical evidence available is insufficient for confident generalisations, the OECD has concluded that it is plausible that consumption taxes are broadly proportional to expenditure but regressive when measured against income (OECD 1993, p. 83).

Australia is one of a number of countries that do not index the tax scale to inflation. In periods of inflation, this means that the income levels at which higher marginal rates cut in fall, thus increasing the effective progressivity of the scale. This progressivity has, however, been offset by periodic tax cuts. In 1997, the top marginal tax rate (47 per cent) in Australia was below the top rate in 13 other OECD countries, although in five of these the top rate is around 50 per cent.

The poorest 30 per cent of households of workforce age in Australia are estimated to pay 3.7 per cent of direct taxes compared to 6.3 per cent in the United States, around 11 per cent in Sweden and the Netherlands and 14 per cent in Denmark (Forster & Pellizzari 2000). From these data, it is possible to calculate an index of the progressivity of direct taxes, being the ratio of the share of taxes of the top 30 per cent to the share of the poorest 30 per cent. This is shown in Figure 2.

Figure 2: Ratio of direct taxes, OECD countries, around 1995



Source: Forster & Pellizzari 2000

3.2 Recent changes to the tax system

On 1 July 2000 the Commonwealth Government introduced wide-ranging reforms to taxation and social security programs. The changes involved the replacement of wholesales sales tax with a broad-based GST, extensive changes to income taxes and family assistance, and the implementation of a compensation package to offset any negative impacts.

The government's reforms of the income tax system provided tax cuts across the board, with reductions in marginal tax rates for about 95 per cent of all taxpayers. Table 3 shows the previous income tax scale and the one that took effect from 1 July 2000.

Table 3: Income tax scale, pre and post 1 July 2000.

Current scale Taxable income	Tax rate (%)	New scale Taxable income	Tax rate (%)
0 – 5,400	0	0 – 6 000	0
5 401 – 20 700	20	6 001 – 20 000	17
20 701 – 38 000	34	20 001 – 50 000	30
38 001 – 50 000	43	50 001 – 75 000	42
50 001+	47	75 000+	47

Note: The $150 low-income rebate applies to both the current and new scales.

The main features of the new tax scale are:

- an 11 per cent increase in the tax-free threshold to $6000
- a reduction in the lowest marginal tax rate from 20 per cent to 17 per cent
- large tax cuts for middle-income earners with incomes between $30 000 and $50 000 a year through the replacement of the 34 per cent and 43 per cent tax rates with a 30 per cent rate. This means that around 81 per cent of taxpayers now have a top tax rate of 30 per cent or less, compared to around 30 per cent of taxpayers previously
- a $25 000 increase (to $75 000) in the level of income at which the top marginal rate of 47 per cent takes effect. The $75 000 threshold is roughly equal to 1.7 times average earnings, ensuring average earners do not drift into paying the top marginal tax rate, which would otherwise have occurred early in the 21st century

Compensation package

In addition to increases to all social security and veterans' pensions and other income support payments and allowances, those outside the social security system were also compensated. The Aged Persons Savings Bonus and Self-Funded Retirees Supplementary Bonus were designed to maintain the value of savings and retirement income of older people. The maximum value of the Aged Persons Savings Bonus was $1000 per person while the Self-Funded Retirees Supplementary Bonus provided up to an additional $2000 per person to eligible people who were of Age Pension age but not in receipt of a social security or service pension. This additional amount assisted self-funded retirees who did not benefit from the increases in the maximum rates of age and service pensions. The bonuses:

- provided an untaxed Aged Persons Savings Bonus of up to $1000 to each resident aged 60 or more on 1 July 2000 with personal income from savings and investment (including superannuation pensions and annuities) and whose total income in 1998–99 or 1999–2000 was less than $30 000
- provided an untaxed Self-Funded Retirees Supplementary Bonus payment of up to $2000 to each eligible person of Age Pension age not in receipt of a social security or service pension

- were calculated on the basis of $1 of Bonus payable for each $1 of income from savings and investments (including superannuation pensions and annuities) in 1998–99 or 1999–2000, up to the maximum amounts
- were targeted to lower-income groups with taxable incomes less than $20 000 in 1998–99 (or 1999–2000), phasing out between $20 000 and $30 000 at a rate of 10 cents in the dollar on taxable income in excess of $20 000 for the $1000 payment and 30 cents in the dollar for the combined $3000 payment

Increased tax rebates

Further assistance was provided by increasing the maximum Pensioner Tax Rebate and the Tax Rebate for low-income aged persons to $250 a year (for single people) and $175 a year (for each of a couple).

Aside from the compensation package associated with tax reform, the Commonwealth Government introduced a 30 per cent tax rebate/benefit from 1 January 1999. Designed to assist families and individuals with the cost of private health insurance, the new 30 per cent tax rebate/benefit is not means-tested and applies to expenditure on private health insurance premiums, including ancillary cover. Available in addition to the existing medical expenses rebate, it can be received either as a tax rebate or direct payment.

3.3 Tax and transfer system interactions

Taxation treatment

Most basic rates of pensions and allowances are taxable. The major exceptions are payments to disability support pensioners (and wives or carers of disability support pensioners) not of Age Pension age, and family payments. Additional payments, such as Rent Assistance and the Pharmaceutical Allowance, are generally not taxable (but are income and assets-tested).

As the annual rates of most taxable pensions exceed the general tax threshold, special income-tested tax rebates ensure that full-year pensioners, with little or no other income, are protected from tax liability. The rebate levels are set by Income Tax Regulations each year. Under these regulations, the pensioner rebates for both married and single pensioners are increased each year to ensure that income equal to the income-test-free areas remains tax-free. The pensioner rebate was introduced in 1982–83. Prior to this, the maximum rates of these payments were below the tax threshold. Over time, the amount of rebate needed to offset the ordinary tax liability of pensioners has risen, as the value of the payments has increased much faster than the value of the tax-free threshold. Allowing for the different rates of payment according to age and marital status (and different treatment of pensioners and allowees) has led to a rather complicated system of rebates. Pensioners and allowees are also eligible for the range of rebates available to other taxpayers, for example Low-Income Rebate, the Dependant Spouse Rebate and the zone rebate. These further reduce the tax liability of those with private income.

Tax and income test interactions

The Australian income support system goes further than most other countries in income-testing payments. For example, in 1990–91 income-tested payments in Australia amounted to 5.2 per cent of GDP, or 90 per cent of total social security spending. The average for the OECD as a whole was 1.9 per cent of GDP and 14 per cent of social security spending (Eardley et al. 1996). Only New Zealand was more reliant on income-testing (and this result is based on treating the income tax surcharge on National Superannuation as an income test). In the UK and the USA, income-tested spending was 3.0 and 2.7 per cent of GDP, and 31 and 33 per cent of social security spending, respectively. As a consequence, comparatively high proportions of the Australian population
were exposed to income-testing, as shown in Table 4. The proportion of the total population in Australia receiving social assistance benefits in 1992 was nearly $2^1/_2$ times the average of OECD countries, and was consistently high for all groups apart from lone parents.[14]

Table 4: Social assistance beneficiaries as a percentage of national population by category, OECD countries, 1992 (per cent)

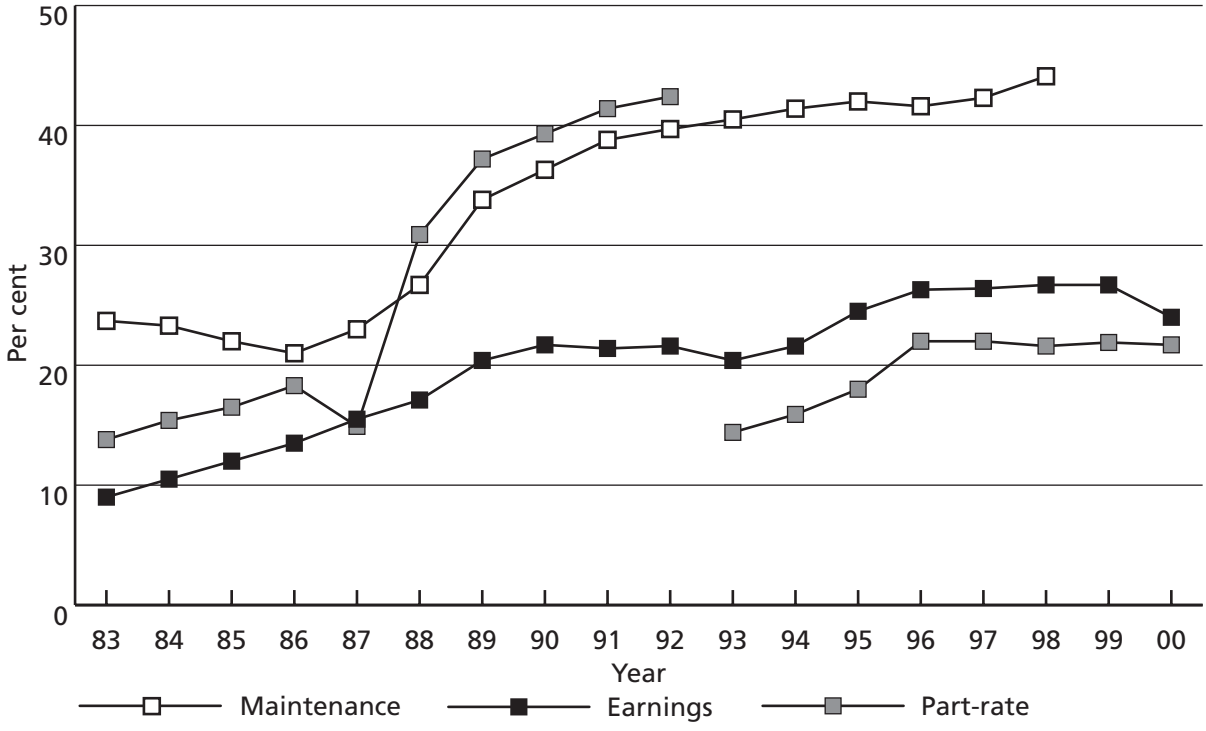
Country	Age	Disability	Lone Parent	Unemployed	Total
Australia	8.5	2.8	1.6	4.4	17.8
Austria	3.4	0.0	0.2	0.7	4.8
Belgium	1.1	2.0	0.3	na	3.6
Canada	5.2	2.0	2.8	4.5	15.1
Denmark	na	na	2.9	0.0	8.3
Finland	0.3	0.0	1.3	3.8	9.2
France	na	1.0	0.2	na	2.3
Germany	0.9	1.3	1.0	0.8	6.8
Greece	0.3	na	na	na	0.7
Iceland	6.8	1.8	1.3	na	3.7
Ireland	3.2	0.8	0.9	6.2	12.4
Italy	1.3	2.2	na	na	4.6
Japan	0.3	0.3	0.1	na	0.7
Luxembourg	0.6	0.6	0.2	na	2.7
Netherlands	0.2	na	0.8	2.1	3.7
New Zealand	14.8	0.9	2.8	5.0	25
Norway	0.2	0.4	1.0	1.2	4.0
Portugal	1.3	0.5	na	na	2.1
Spain	0.1	0.2	na	2.4	2.7
Sweden	0.4	0.0	0.7	na	6.8
Switzerland	1.8	0.5	na	na	2.3
Turkey	na	na	na	na	Na
United Kingdom	3.3	1.2	4.7	5.1	15.3
USA	0.6	1.6	4.8	0.5	7.5
Average	2.6	1.2	1.5	1.9	7.0

Note: na: not available. Totals include other categories varying between countries.
Source: Eardley et al. 1996, pp. 40, 42.

Over the past 20 years, there has been a substantial increase in the degree of interaction between social security and other sources of income. This reflects a wide range of factors, including the increase in unemployment and lone parenthood, the introduction of income-tested family payments for people in the workforce, initiatives to increase private provision through improved collection of maintenance, and liberalisation of income tests. In 2000, the proportion of customers with private earnings ranged between 0.7 per cent for Special Benefit recipients, 14.4 per cent of Newstart allowees to 8.4 per cent of disability support pensioners, 24 per cent of Parenting Payment Single recipients and 5.8 per cent of Parenting Payment Partnered allowees.[15]

These trends have been particularly significant for lone parents. In 1996–97, 42 per cent of all lone parents received 90 per cent or more of their income from government pensions and allowances, but by 1999–00 this had fallen to under 33 per cent. Figure 3 shows trends in the proportion of lone parent pensioners receiving income from different sources. The proportion receiving income from maintenance increased from under 24 per cent to more than 44 per cent between 1983 and 1998, while the proportion with earnings went from 9 to 24 per cent between 1983 and 2000. As a result, the proportion of pensioners receiving a part-rate payment increased from under 15 to more than 40 per cent by 1992. There was then a change in income-testing of maintenance[16], but the new series since 1992 shows continuing increases in the proportion of pensioners receiving part payments, rising from 14 to 22 per cent between 1992 and 2000. The impact on average rates of receipt for allowees may be even greater given the large differences in free areas between pensions and allowances.

Figure 3: Lone parent pensioners, receipt of income, 1983 to 1999



Source: DSS Annual Reports and FaCS Annual Reports, various years

This increasing interaction is also important as an increasing number of individuals may be subject to incentive effects caused by overlap between social security income tests, the tax system, and income tests outside the social security system. Where these effects act as a barrier to social security recipients taking part-time work, they are known as 'poverty traps'. Where they act as a barrier to those in work increasing their earnings, they are known as 'low-income traps'. Policy initiatives over the past 15 years have attempted to reduce disincentives to undertake work, thereby reducing the problem of poverty traps.

There are a number of ways to describe these incentive effects. Replacement rates are both a measure of benefit generosity and incentive to work. Calculated as the proportion of benefit levels compared with selected levels of earnings such as Average Production Workers Wage (APW), the higher the replacement rate, the greater the disincentive to work. In Australia, optimal rates remain in dispute. Table 5 shows net replacement rates for selected income support recipients, compared to the minimum wage and against Average Weekly Earnings (AWE).

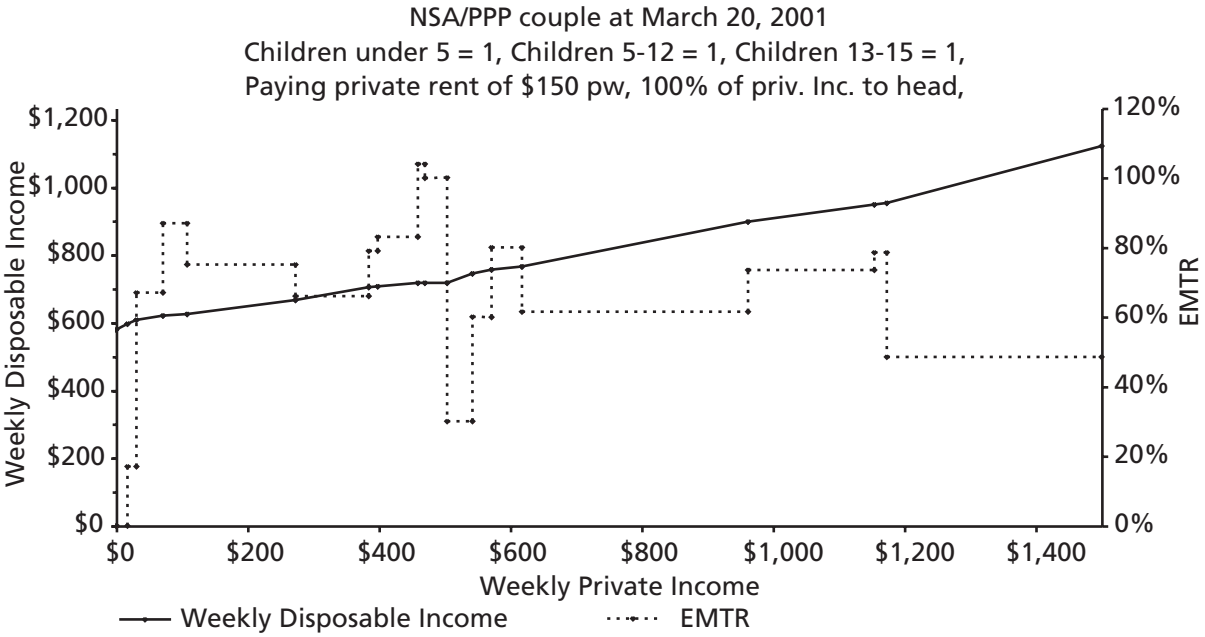
Table 5: Net replacement rates for social security clients (June 2001)

	Minimum Wage	Average Weekly Earnings
Lone parent, 1 child < 5, rent=$150 pw	0.64	0.50
Lone parent, 1 child < 5, 1 child 5–12, rent=$150 pw	0.67	0.54
Lone parent, 1 child < 5, 1 child 5–12, 1 child 13–15, rent=$150 pw	0.70	0.58
Lone parent, 1 child < 5, 1 child 5–12, rent=$0 pw	0.64	0.49
NSA/PPP couple, 1 child < 5, rent=$150 pw (a)	0.77	0.61
NSA/PPP couple, 1 child < 5, 1 child 5–12, rent=$150 pw (a)	0.79	0.64
NSA/PPP couple, 1 child < 5, 1 child 5–12, 1 child 13–15, rent=$150 pw (a)	0.83	0.68
NSA/PPP couple, 1 child < 5, rent=$150 pw (b)	0.76	0.59
NSA/PPP couple, 1 child < 5, 1 child 5–12, rent=$150 pw (b)	0.78	0.62
NSA/PPP couple, 1 child < 5, 1 child 5–12, 1 child 13–15, rent=$150 pw (b)	0.81	0.66
Single NSA, no children, rent=$150 pw	0.63	0.34
Single NSA, no children, rent=$0 pw	0.50	0.27
NSA/PPP couple, no children, rent=$150 pw (a)	0.79	0.55
NSA/PPP couple, no children, rent=$0 pw (a)	0.77	0.49
Single Age Pensioner, no children, rent=$150 pw	0.56	0.38
Single Age Pensioner, no children, rent=$0 pw	0.51	0.31
Age Pension couple, no children, rent=$150 pw (a)	0.64	0.50
Age Pension couple, no children, rent=$0 pw (a)	0.61	0.48

Note: (a) 100% of private income to head
(b) 50% of private income to head
Minimum wage = $413.40, Average Weekly Earnings (AWE) 'Full-time adult total earnings' = $862.60
Source: ABS Cat. No. 6302.0, Average Weekly Earnings, May 2001.

Another way of looking at incentives to work is through an examination of Effective Marginal Tax Rates (EMTRs). Higher EMTRs result in smaller increases in disposable income as private income increases, with negative returns to disposable income where EMTRs exceed 100 per cent. Figure 4 illustrates the EMTR schedule for a couple with three children and paying private rent.[17] Withdrawal rates on Newstart/Parenting Payment and income tax combine to produce EMTRs of between 67 and 104 per cent. Effective marginal tax rates then drop over a narrow income range. For some low-income families, the EMTRs are then up to 61.5 per cent because they pay tax of 30 cents, the Medicare Levy of 1.5 cents and they lose Family Tax Benefit at a rate of 30 cents for each extra dollar of income they earn. Withdrawal of income-tested tax rebates and the phasing in of the Medicare Levy produce some of the extreme spikes in the schedule. At specific points or narrower income ranges, they are even higher and exceed 100 per cent.

Figure 4: Effective marginal tax rate schedule, couple with 3 children, June 2001



Source: Calculated by G. Angenent, Department of Family and Community Services

Yet another way of illustrating this is to consider increments to disposable income from a $100-a-week increase in private income. Table 6 shows that a single allowee would face an effective marginal tax rate of 80 per cent on incomes between $100 and $200 a week and 78 per cent on incomes between $200 and $300 a week. Couples with two children aged 13 and 16 face effective marginal tax rates of 77 per cent between $200 and $300 a week, and 68 per cent between $300 and $400 per week—that is, for each additional dollar they earn over these income ranges they keep only 23 and 32 cents respectively. For families with four children, the table shows marginal tax rates can reach 93 per cent, and, where there are dependant students,

marginal tax rates can be over 100 per cent—the change in disposable incomes is negative. The range of incomes over which these marginal rates apply is even wider where rent assistance is received.

The high degree of targeting imposed in the Australian family payments system has probably also contributed to the popular view that low-income working families are little or no better off than families completely reliant on social security payments. While strictly speaking this is not correct, it can be seen from Table 6 that a couple with two teenage children will increase their disposable income by only around $346 per week ($295 with rent assistance) for a $1000 a week private income. For a couple with four older dependant children, the change in disposable income is $329 ($278 with rent assistance) out of $1000 of gross income. The recent changes to Family Tax Benefit, however, have significantly reduced EMTRs for families and these changes in disposable income are higher than they were previously.

Table 6: Returns to disposable income from successive $100 pw increments in private income, single-earner income units, June 2001

	Change in disposable income over income range ($pw)										Income	Income	gain	gain	
Income unit type	**0–100**	**1–200**	**2–300**	**3–400**	**4–500**	**5–600**	**6–700**	**7–800**	**8–900**	**9–1000**	**at $1000**	**at $0**	**$ pw**	**%**	**EATR**
No rent assistance															
Single allowee, no children	46	20	22	79	66	69	69	69	69	54	740	179	561	0.56	0.44
Allowee couple, no children	46	24	22	17	10	66	69	69	69	64	777	323	454	0.45	0.55
Couple, one child aged 16	46	24	22	7	–7	37	44	62	69	64	769	402	366	0.37	0.63
Couple, two children aged 13, 16	46	24	23	32	7	21	14	48	69	64	822	476	346	0.35	0.65
Couple, three children aged 4, 11, 15	46	24	27	32	10	44	35	39	39	37	856	523	333	0.33	0.67
Couple, three children aged 9, 16, 20	46	24	23	32	7	34	–4	19	47	65	848	556	292	0.29	0.71
Couple, four children aged 8, 12, 14, 16	46	24	23	32	10	44	12	14	30	37	864	592	272	0.27	0.73
Couple, four children aged 12, 16, 18, 20	46	24	23	32	7	44	23	19	20	93	885	556	329	0.33	0.67

Note: EATR = Effective Average Tax Rate

Source: Calculated by G. Angenent, Department of Family and Community Services

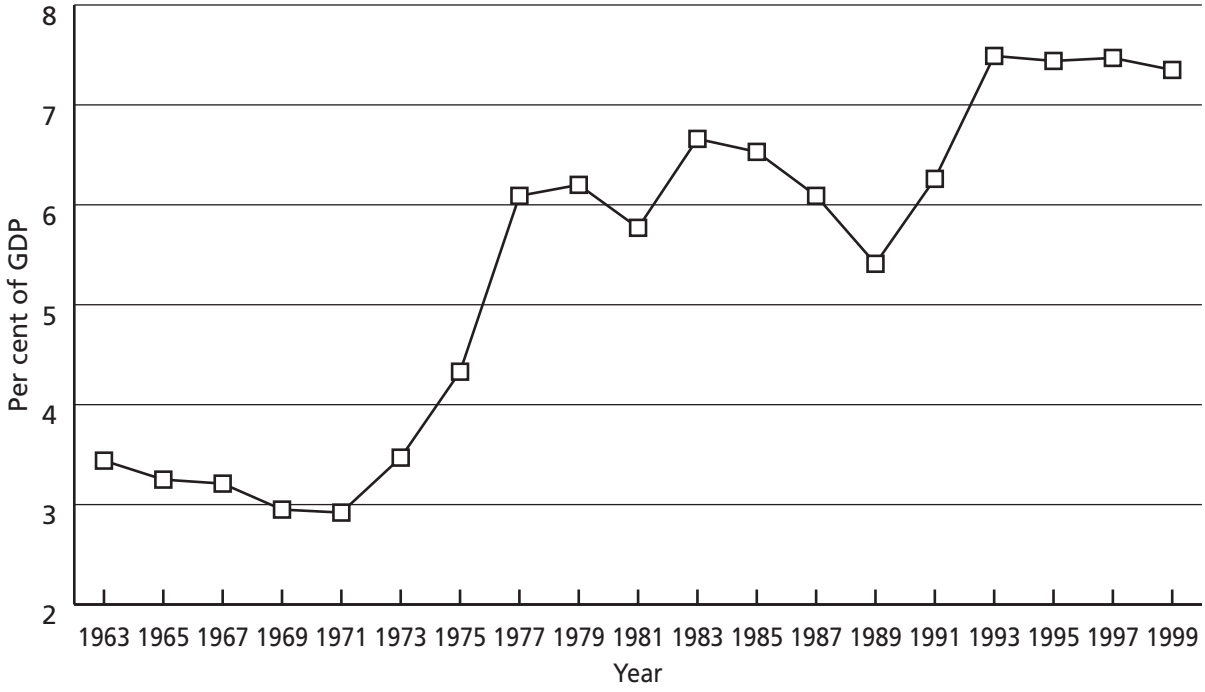
4 Spending on social protection: trends and comparisons

4.1 Growth in income support spending

Over the past 40 years, there has been a significant long-term increase in the level of income support spending in Australia, and an associated increase in the number of individuals and families receiving social security payments.

Figure 5 shows that spending on cash transfers by the (then) DSS rose from around 3 per cent of GDP during the 1960s to 5.1 per cent in 1976, 6.7 per cent in 1983, and 7.8 per cent in 2000. However, social security spending has fallen as well as risen. For example, spending fell between 1978 and 1981, again from 1984 to 1989, in 1995, and in 1998. The increase in spending between 1999 and 2000 is largely a result of the compensation package for the introduction of the GST.

Figure 5: Total spending by the Department of Social Security/Department of Family and Community Services, % of GDP, 1963 to 2000



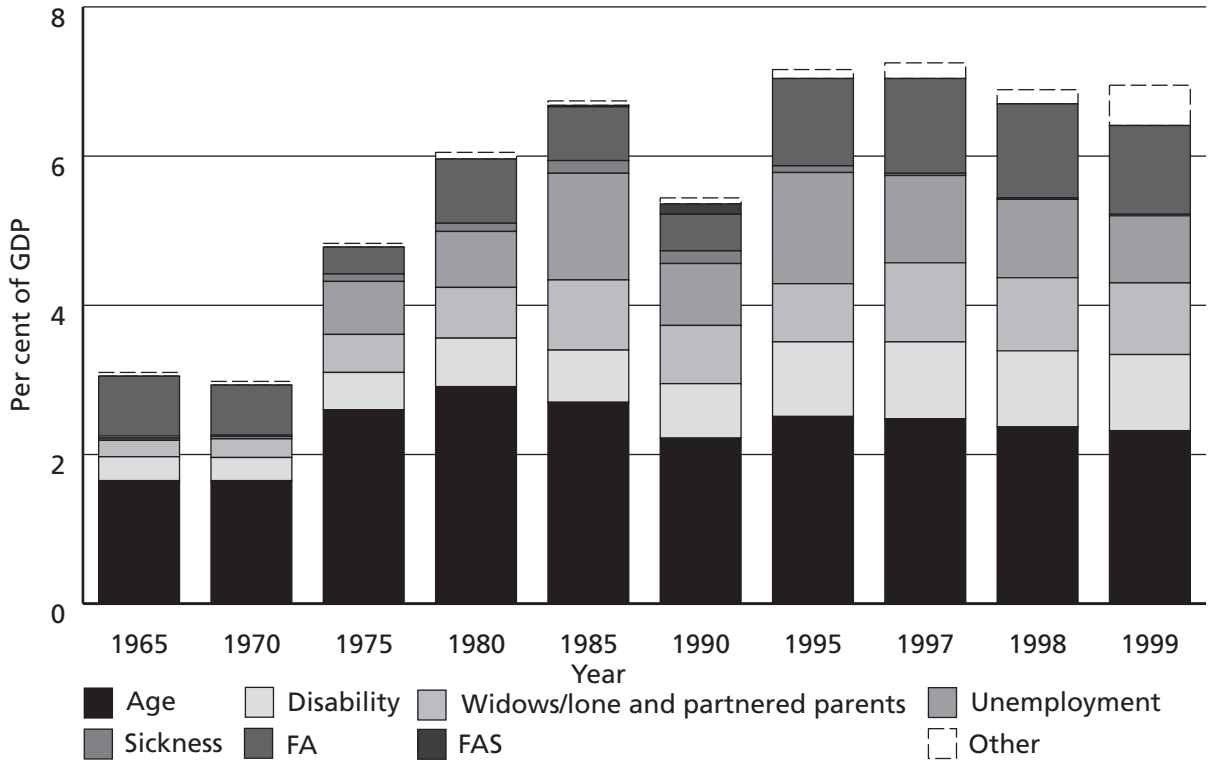
Source: Calculated from DSS/FaCS Annual Reports, various years and ABS Cat. No. 5206. *Australian National Accounts: National Income, Expenditure and Product*, various years

Figure 6 shows the changing composition of social security spending since 1965. Spending on Age Pensions has remained the largest single program over this period, increasing from 1.65 per cent of GDP in 1965 to nearly 3 per cent in 1980, before falling to around 2.2 per cent in 1990. Age Pension spending has fallen from 55 per cent of total departmental spending on cash benefits in 1970 to 33 per cent in 1999.

Unemployment spending has been the largest single contributor to the total increase in spending, growing from 0.03 per cent of GDP in 1965 to almost 1 per cent in 1999. Other significant components of the increase in social security spending include disability payments, which increased from 0.32 to just over 1 per cent of GDP, and payments for widows and lone and partnered parents, which grew from 0.22 to 0.96 per cent of GDP.

In general terms, changes in the economic and social environment have been the most significant contributors to increased spending over the past 30 years. These environmental changes include the demographic ageing of the population, the increase in unemployment, and the increase in the number of lone parents in the population. Demographic ageing has provided a reasonably constant upward pressure on spending on Age Pensions, while the influence of unemployment is cyclical, although the long-term trend in unemployment has been upward. The influence of increasing lone parenthood has almost always been upwards, but the strength of this trend has varied significantly over time, suggesting there may also be some influence of cyclical factors.

Figure 6: Composition of social security spending, % of GDP, 1965 to 1999.



Source: Calculated from DSS/FaCS Annual Reports, various years and ABS *Statistical Yearbook Australia*, various years

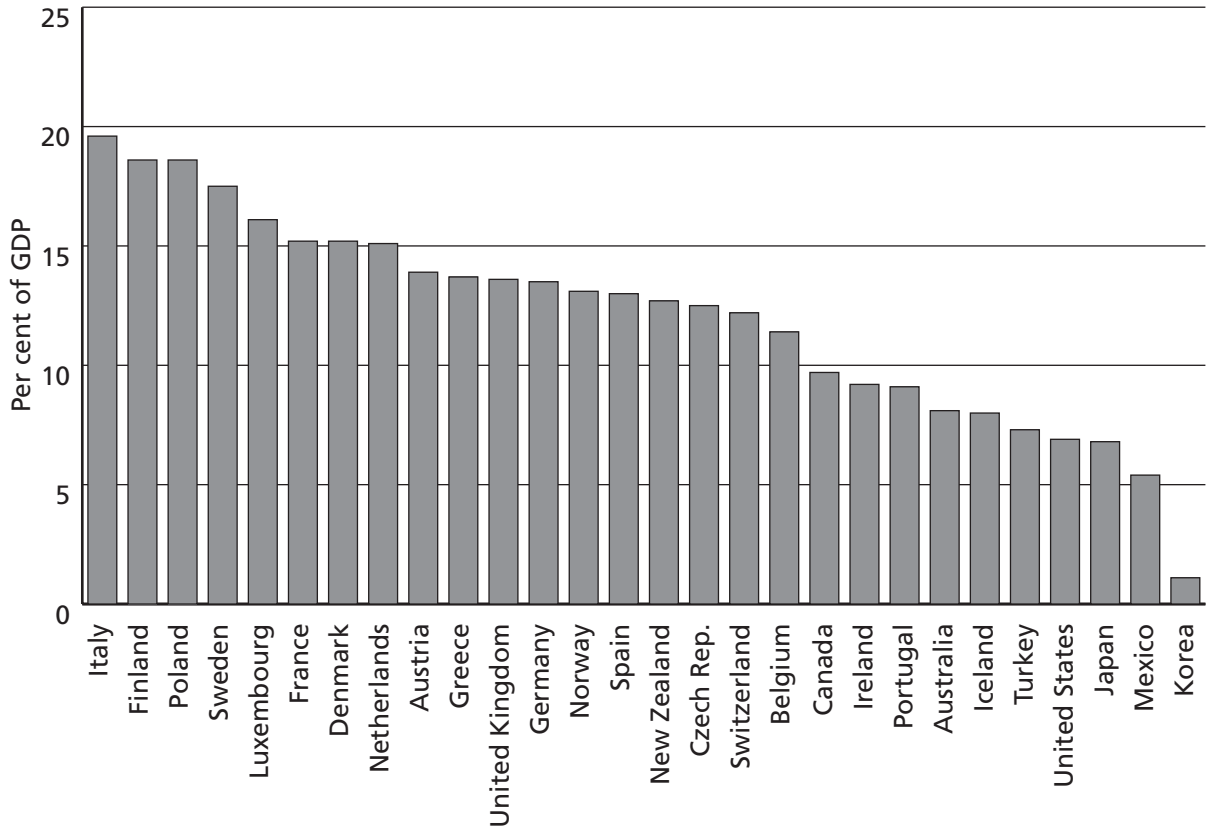
Policy changes have had varying influences in different periods. Increases in real benefit rates were particularly significant in the period 1970 to 1975, across all major payment types. Reductions in real benefit rates for the unemployed were made in the period 1975 to 1980

and for sickness benefit recipients in the period 1980 to 1990. In other periods, changes in real benefit rates have played a less substantial role, although generally tending to cause increased social security spending.

4.2 The Australian model of social protection

The most recent data available from the OECD (see Figure 7 below) indicate that public spending on social security was 8.1 per cent of GDP in Australia in 1997. This is about 64.1 per cent of the OECD average, and exceeded the levels of social security spending only in Iceland, Turkey, the United States, Japan, Mexico and Korea.

Figure 7: Social security expenditure, OECD, 1997

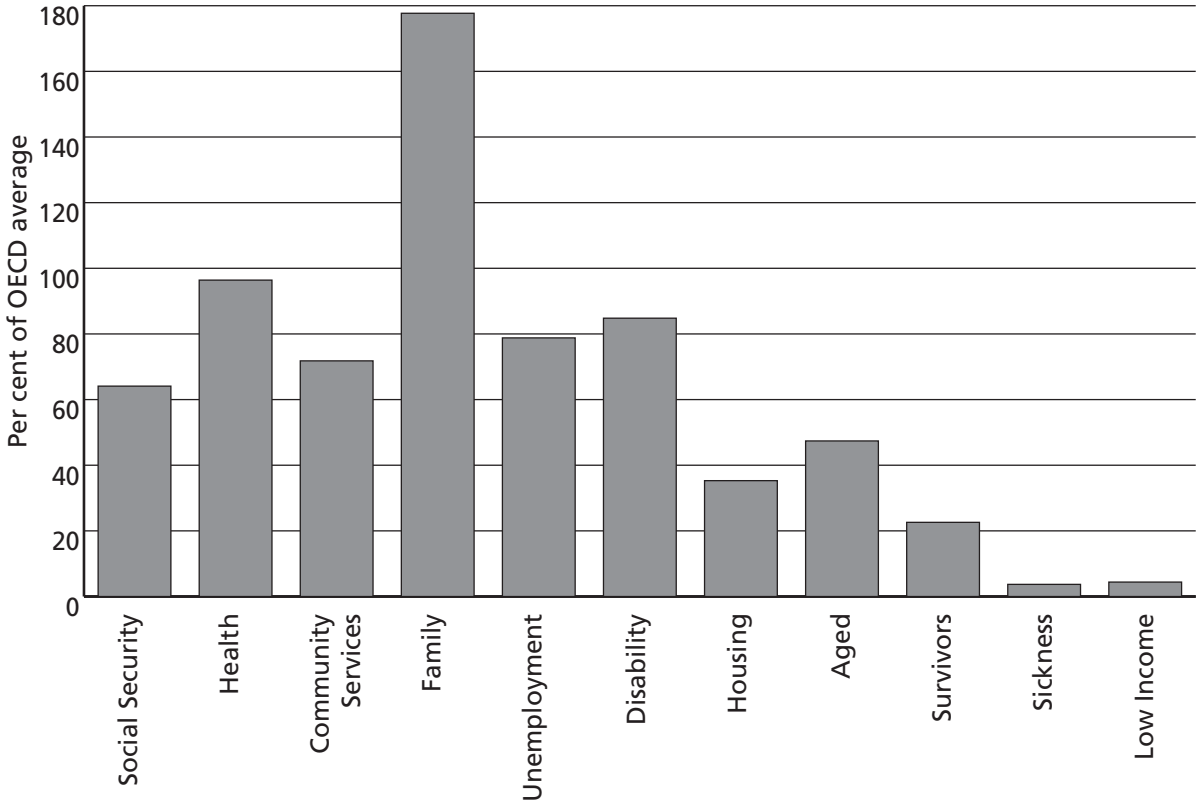


Source: OECD *Social Expenditure Database* 2001

There are a number of reasons why Australia has a relatively low level of social protection spending. Figure 8 provides a breakdown by category of the components of social protection spending in Australia relative to the OECD average[18]. Public health spending is just below the OECD average, while spending on community services is around 72 per cent of the mean. Within income support, spending on families is well above the OECD average, reflecting the fact that most of Australia's family assistance is provided in the form of cash payments rather than tax concessions, and in 1997 assistance for lone parents was included under family assistance.

Assistance for the unemployed is close to the OECD average (79 per cent), while spending on disability payments is 84.8 per cent. Other components of social protection spending, however, are well below the OECD average.

Figure 8: Components of social protection spending, Australia and the OECD, 1997



Source: OECD *Social Expenditure Database* 2001

As can be seen, income support for the sick in Australia is apparently very low. This is because it is predominantly supplied by employers through industrial awards that fall outside the definition of public spending, while in many other countries such coverage is provided through the social security system. However, it is spending on Age Pensions that is the main contributor to Australia's overall low spending on income support. Australia spends just under half the OECD average on the aged. Because this is the largest single component of income support in Australia and most other OECD countries, it exerts a powerful downward pressure on overall spending. In part this reflects Australia's age structure, which is currently younger than the OECD average.

Recent analyses by the OECD suggest a further explanation for relatively low transfer spending in Australia. This relates to the large differences in the level of taxes paid on transfers in different countries.[19] Adema (1999) estimates that in Denmark, of the 21.4 per cent of GDP spent on cash benefits in 1995, around 6 per cent is 'paid back' in direct taxes and contributions, and another 8 per cent in indirect taxes. In Australia, in contrast, direct taxes and contributions reduce the 10.7 per cent of GDP spent on cash benefits by only 0.3 per cent

of GDP, and indirect taxes by 1.6 per cent of GDP. Thus, gross expenditure on cash benefits is nearly twice as high in Denmark as in Australia, but net transfer expenditures are actually higher in Australia.

Probably the most important reason for relatively low spending levels on older people is that Australia operates a targeted income support system, with flat-rate benefits. The Australian pension system has been described as 'radically redistributive' by an American observer (Aaron 1992). Khan (1998) has estimated that abolition of the means test on age and service pensions would increase spending in this area by about one-third, to around 5 per cent of GDP. Introducing an earnings-related pension with a 75 per cent replacement rate would increase spending to around 15 per cent of GDP, which would make Australian spending levels on the aged by far the highest in the OECD.

More generally, the cost of financing income support can be expressed as follows:

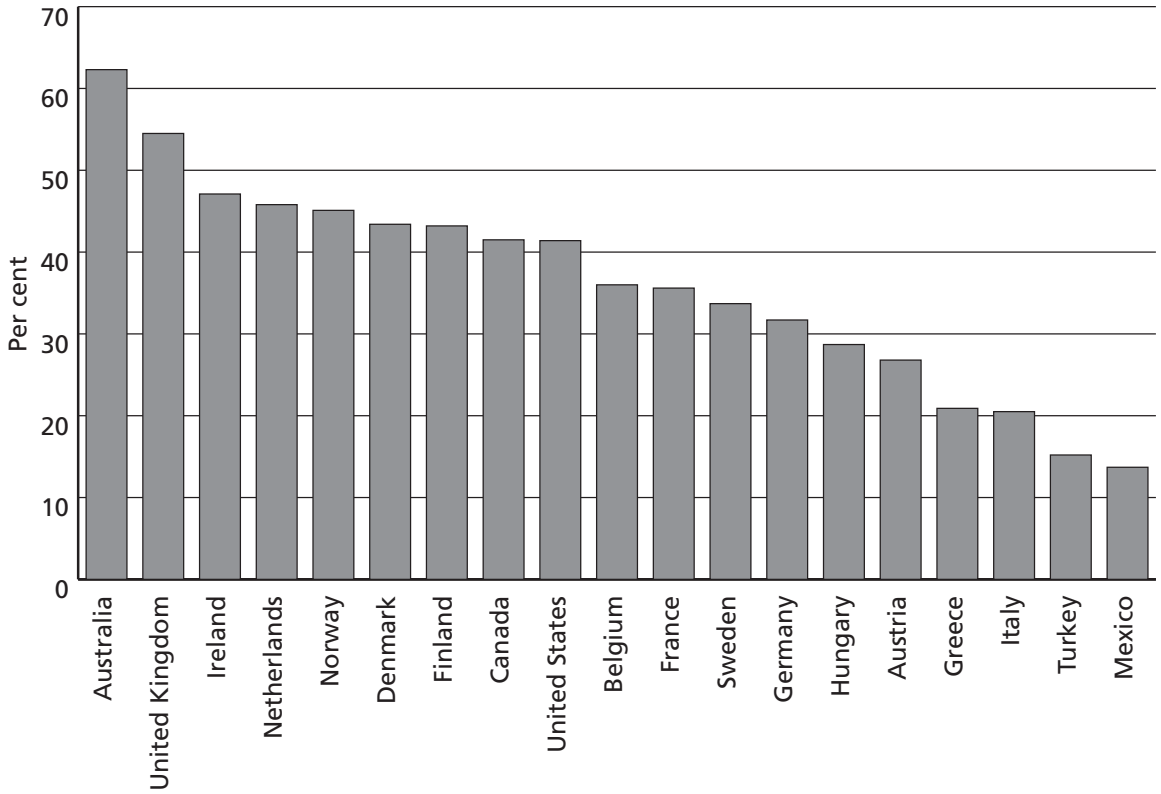
Cost = Number of recipients/Number of contributors **X**
Average benefit received/ Average income of contributors

In considering this formula, it is clear that the cost of a general revenue financed, flat-rate and means-tested system may differ significantly from a social insurance system with earnings-related benefits. General revenue financing will maximise the number of effective contributors to encompass the entire population. While the universal coverage of the Australian income support system will tend to increase the number of recipients, means-testing will work in the opposite direction (for example, only around 80 per cent of older Australians receive some government income support in retirement). Means-testing also reduces the average benefit received, but Khan's (1998) calculations suggest that it is the flat-rate nature of Australian benefits that most significantly reduces the average benefit level paid relative to other countries.[20]

A number of recent OECD studies also show that the overall distribution of direct transfers in Australia is one of the most progressive in the OECD. Atkinson et al. (1995) estimated that in Australia in the mid-1980s, the poorest group received nearly eight times as much in social security transfers as the richest group. In all other countries, apart from France, the ratio is less than 3 to 1. In Sweden, Japan and Italy, the richest 20 per cent actually received more in transfers than the poorest income quintile.

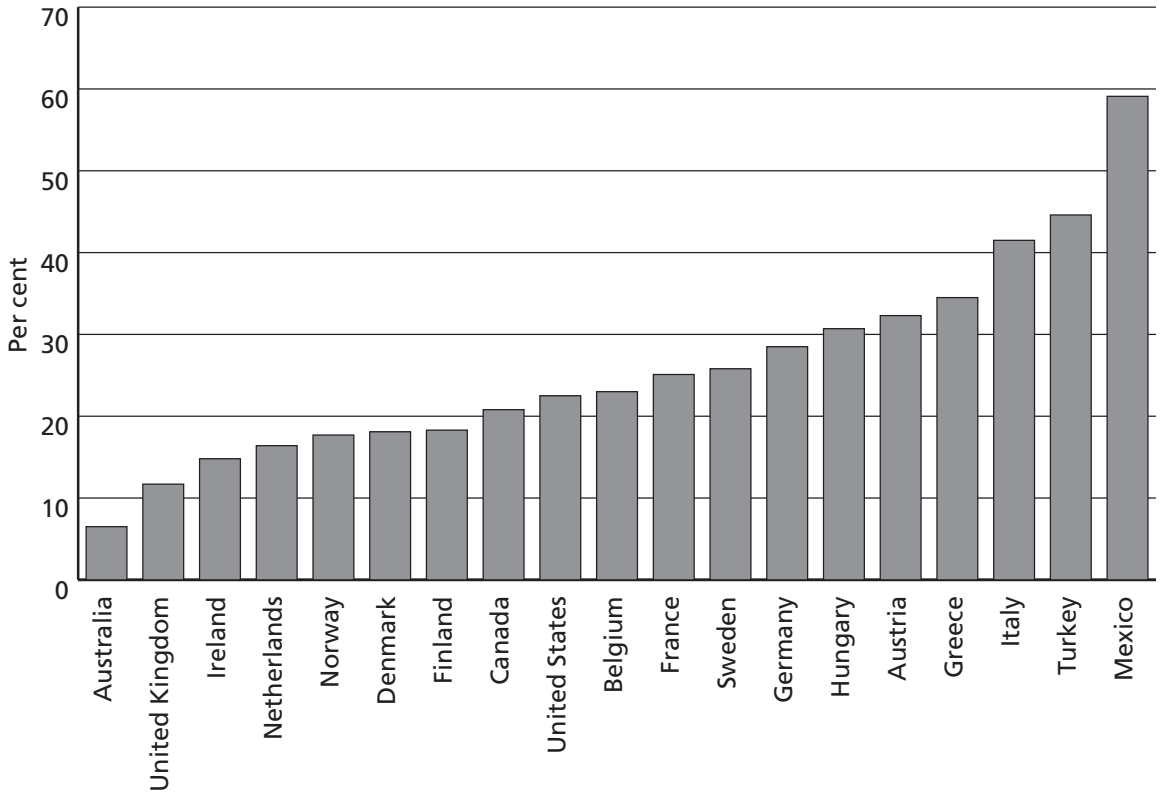
Figures 7, 8 and 9 illustrate similar findings from a more recent OECD study using household income and expenditure surveys for the 1990s. Figure 9 shows that in Australia the share of transfers received by the poorest three deciles of workforce age is 62.3 per cent, greater than all other OECD countries. The most striking difference is between the share of transfers to the richest 30 per cent, shown in Figure 10. In Mexico, the richest 30 per cent of households of workforce age receive nearly 60 per cent of total spending, while in Australia the corresponding group receives only 6.5 per cent.

Figure 9: Share of transfers, poorest three deciles, OECD countries, around 1995



Source: Forster & Pellizzari, 2000

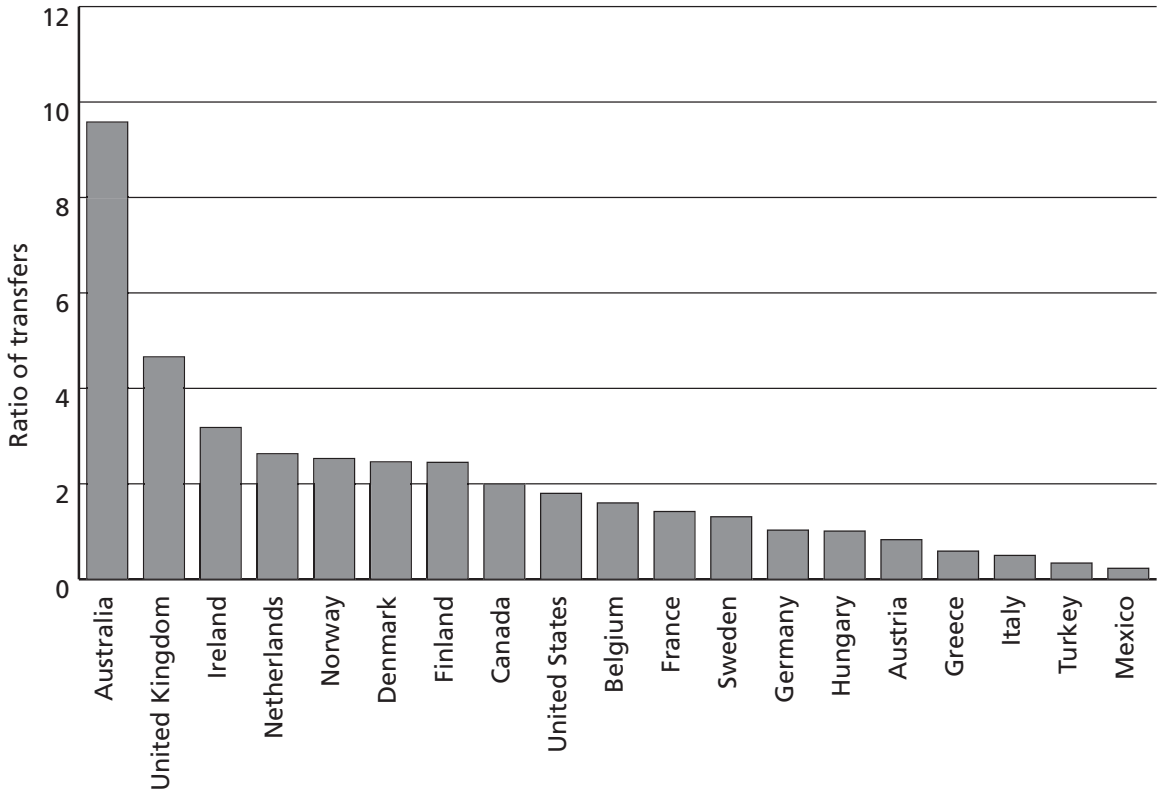
Figure 10: Share of transfers, richest three deciles, OECD countries, around 1995



Source: Forster & Pellizzari, 2000

Figure 11 shows the ratio of the share of transfers received by the poorest 30 per cent of workforce age to the share of the top 30 per cent, which provides an index of the progressivity of the transfer system. In fact, it is the very low share of the top 30 per cent that is the most significant contributor to the overall progressivity of the Australian system. Put another way, Australia has less 'middle-class welfare' than virtually all other developed countries, including other low-spending countries such as the USA and Japan.

Figure 11: Ratio of transfers, OECD countries, around 1995



Note: This is the ratio of transfers received by the poorest three deciles to those received by the richest three deciles of workforce age.

Source: Forster & Pellizzari, 2000.

It is important to note that the progressivity of the transfer system does not necessarily mean that the Australian system is more effective at redistribution. The degree of redistribution achieved by a benefits system depends on the 'quantum' of benefits as well as the progressivity of the formula for allocating benefits (Barr 1990). A means-tested program with a highly redistributive formula—such as Australia's—may achieve limited redistribution if spending is low. That is, while the Australian system may be more efficient than others, it does not necessarily follow that it is more effective at reducing poverty or inequality.[21]

Having noted this, it is important not to confuse the amount of redistribution with the size of welfare state spending. Logically, it is the quantum of redistribution, not the quantum of taxes or benefits separately, that determines the redistributive effects of a tax-benefit system. Redistribution is a function of the distribution of the differences between taxes and benefits as a proportion of income.

Table 7 shows the effects of targeting on the net redistributive impact of income transfer spending in OECD countries. The table should be considered as illustrative rather than definitive, since it applies the data on shares received by the poorest 30 per cent in the OECD study (1998) to the gross transfer spending figures published by the OECD (1996). That is, the share data come from household surveys and the gross expenditures from statistical agencies.[22] The second half of the table uses estimates of 'churning' also prepared by the OECD (1998). Churning is defined as the level of direct taxes paid by the lowest 30 per cent of households, and is estimated from the same household surveys as the distribution of transfers. The table then calculates the net transfers paid to the lowest 30 per cent of households as a percentage of GDP. This is estimated by taking gross transfers as a percentage of GDP and applying the share fraction to calculate gross transfers to the poorest 30 per cent. Direct taxes paid by the poorest 30 per cent are then calculated in the same way, and subtracted to give estimates of the net transfers paid.

While the total level of transfers in Australia is the third lowest among these countries, the level of net transfers to the poorest 30 per cent is the third highest, being exceeded only by Norway and Finland and being somewhat greater than in Sweden. It is also likely that inclusion of the effects of indirect taxes would further increase Australia's relative ranking in terms of targeting the poor. As was shown in Table 7, indirect taxes are much higher in most European countries, and it could be expected that they would impact more on lower-income groups. On the other hand, non-cash benefits are also not included in this picture and they are likely to work in the opposite direction.

In summary, this table suggests that the Australian transfer system is likely to be particularly redistributive despite the low level of overall spending. While the redistributive impact of the system is a function of both the level of spending and the targeting formula, the degree of targeting is apparently so pronounced that the level of net redistribution to the poorest 30 per cent is significantly higher than in many other countries with much higher spending. Having said this, the degree of equality in income distribution and the level of poverty will also be determined by the 'pre-tax and transfer' distribution of income. An important issue here is whether the Australian system of social protection has adverse behavioural effects that impact on the 'underlying' level of inequality and poverty.

Table 7: Effects of targeting and churning on transfers, OECD countries, 1992–93

	Australia	France	Norway	Denmark	Netherlands	Canada	Finland	Germany	USA	Sweden	Belgium	Japan	Italy	Mean
1. Total SS as % of GDP	8.71	16.13	15.96	17.53	14.38	10.7	23.29	14.28	6.88	21.37	15.16	5.25	14.95	14.20
2. Share of transfers to poorest 30%	58.0	53.5	47.7	45.8	43.6	41.7	39.8	38.6	37.2	31.4	30.0	27.5	20.8	39.7
3. Share of poorest 30% as % of GDP	5.05	8.63	7.61	8.02	6.27	4.46	9.27	5.51	2.56	6.71	4.55	1.44	3.11	5.63
4. Total direct taxes as % of GDP	11.8	12.1	13.6	27.7	23.3	15.5	17.4	17.2	12.7	18.9	18.8	11.2	14.8	16.5
5. Share of direct taxes from lowest 30%	1.9	n./a	8.3	12.7	10.7	2.9	9.5	5.3	5.2	10.7	2.8	11.3	5.8	7.3
6. Share of poorest 30% as % of GDP	0.22	n/a	1.13	3.52	2.49	0.45	1.65	0.91	0.66	2.02	0.53	1.27	0.86	1.31
7. Transfers—Direct Taxes for lowest 30%	4.83	n/a	6.48	4.5	3.78	4.01	7.62	4.6	1.9	4.69	4.02	0.17	2.25	4.07

Source: Calculated from OECD, 1996, 1998

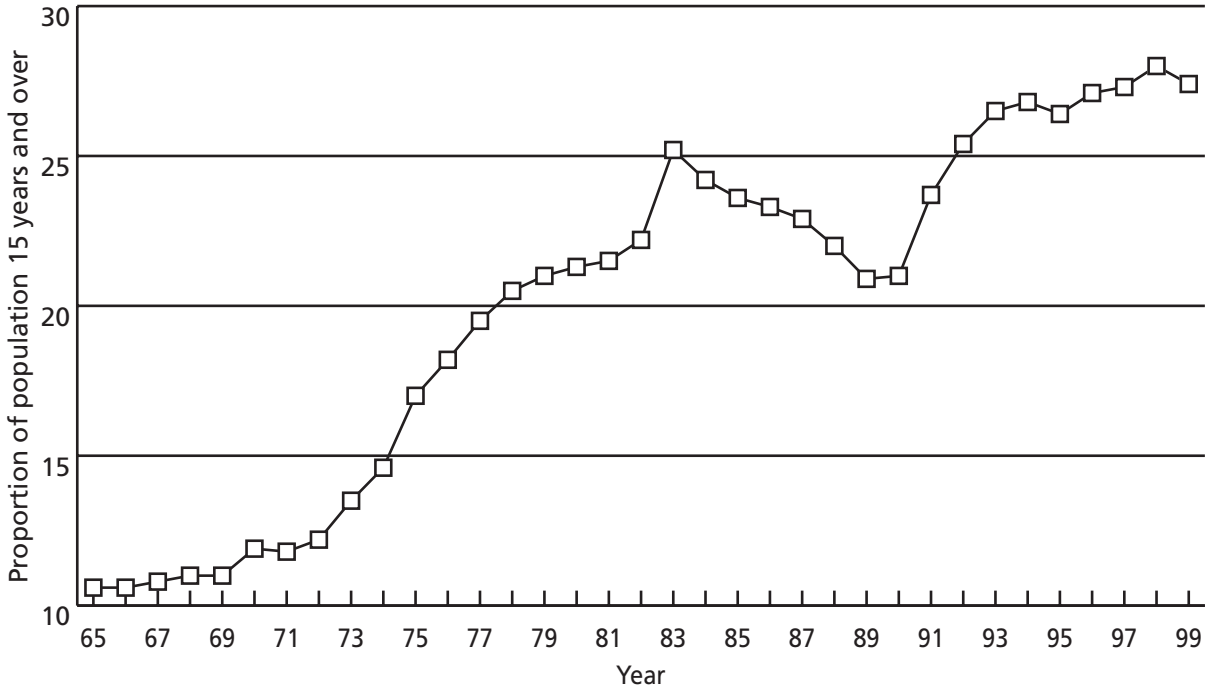
5 Patterns of pension and benefit receipt

5.1 Current patterns and trends

Table 8 provides details of trends in the number of recipients of various cash payments from the former DSS, FaCS and Department or Veterans' Affairs (DVA) for selected years from 1965 to 1999. Over this period, the total number of income support recipients has increased from around 900 000 to nearly 5 million. Of these, just over 2 million in 1999 were Age Pensioners or recipients of DVA payments.

Figure 12 shows trends in social security recipients as a percentage of the total population aged 15 years and over. Between 1965 and 1999, the proportion of the adult population who were social security recipients increased from under 11 to 27 per cent.

Figure 12: Proportion of the population aged 15 years and over receiving social security payments, 1965 to 1999



Note: Does not include recipients of student assistance
Source: DSS/FaCS Annual Reports, various years and ABS Cat. No. 3201.0, *Population by Age and Sex, Australian states and territories*, various years.

Trends in receipt of payments are the consequence of differing levels and trends for different age groups. The aged[23] as a proportion of the total population has been growing steadily since the 1970s, from 10 per cent in 1971 to 14 per cent in 2000.[24] Figure 13 shows social security income recipients as a proportion of the pension age population from 1965 to 1999. For the aged, income support numbers for both sexes rose throughout the period except between 1978 to 1990, with coverage increasing significantly in the 1970–75 period due to the phased abolition of the means test. Changes in the number of DVA pensioners have also affected numbers receiving the Age Pension. This is essentially a cohort effect, as the group of veterans of World War II moved into retirement.

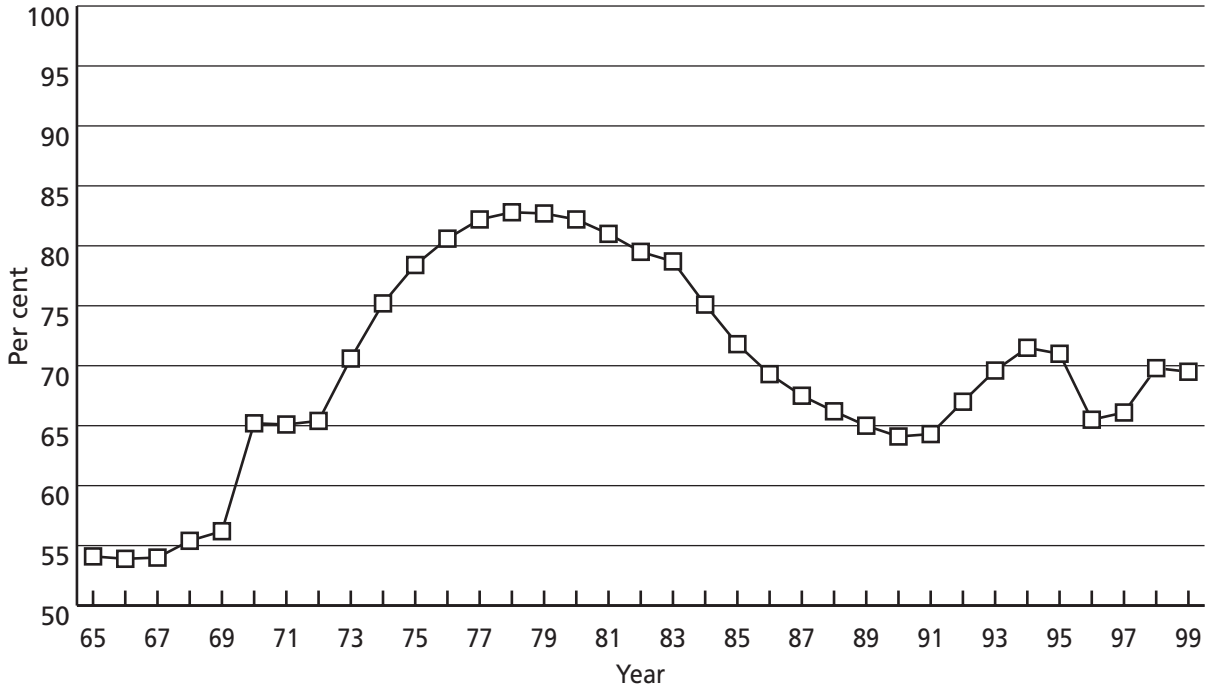
Table 8: Number of recipients of cash payments, 1965 to 1999 (000's)

	At 30 June									
Payment	**1965**	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**1997**	**1998**	**1999**
Income support payments										
Age Pension	628.1	779	1097.2	1321.9	1331.8	1340.5	1578.7	1680.2	1682.6	1715.8
Wife Pension	3.5	6.6	21.9	30.8	22.9	23.8	39.6	36.6	36.2	32.2
Disability Support Pension[1]	107.5	134.5	171.5	236.8	271.5	328.2	464.4	527.5	553.3	577.7
Wife Pension	12.8	16.2	28.9	60.2	74.8	91.9	121.8	91.3	79.9	68.5
Carer Pension	–	–	–	–	2.7	8.8	20.1	29.6	34	40.1
Parenting Payment—single[2]	29.7	44.1	102.5	161.6	246.3	248.9	324.9	358.9	372.3	384.8
Parenting Payment —partnered[3]	–	–	–	–	–	–	–	239.3	236.6	227.7
Class B Widows[4]	35.7	42.8	54.3	75	81.6	79	55	18.9	13.6	10.6
Widows Allowance	–	–	–	–	–	–	8.7	17.5	24.7	27.5
Mature Age Allowance	–	–	–	–	–	–	39	53.4	50.7	45.3
Mature Age Partners	–	–	–	–	–	–	15.1	7.3	4.4	1.7
Unemployment Allowances[5]	12.7	13	160.7	311.2	561.4	419.8	795.5	801.8	790.3	713.4
Dependant partners[6]	3.5	4.4	33	66.3	147.2	126	–	–	–	–
Sickness Allowance	10.2	8.8	25.5	36.8	62	79.2	46.1	15.8	16.3	11.2
Dependant partners[6]	4.2	3.9	11.2	13.1	20.4	26.3	–	–	–	–
Special Benefit	2.4	3.8	5.6	20.9	18.9	27.9	20.5	14.6	10.2	11.8
Dependant partners[6]	0.9	1.3	1.7	3.4	4.7	8.2	–	–	–	–
Partner Allowance	–	–	–	–	–	–	216.7	72.1	77.7	80.5
Total social security pensioners and beneficiaries	851.1	1058.5	1714	2338	2846.3	2808.4	3746.2	3964.8	3982.9	3948.7
Student Assistance	18.5	35.2	67.2	81.9	93.7	339.1	433.8	404.7	384.6	350.9
Department of Veteran's Affairs Service Pensions[7]	65.2	74.4	121.6	240	392.5	386.3	347.7	389.5	387.6	308.7
Total income support recipients	934.8	1168.1	1902.8	2659.9	3332.5	3533.8	4527.7	4759.0	4755.1	4608.3
Child payments										
Basic Family Allowance (children)	3710.6	4079.4	4283.3	4233.9	4323.5	3672.5	3486.3	3491.2	3418.9	3441.2
Additional Family Allowance (children)										
Income Support	–	–	372.98	524.8	779.2	710.8	983.4	1196.2	1220.4	1225.9
Workforce	–	–	–	–	74.9	437.5	687.9	625	579	544.7

Notes:
e: estimate. —: not applicable or not available.
1. Includes Sheltered Employment and Rehabilitation allowees in relevant years. 2. Includes Class A Widows' Pension, Supporting Mothers/Parents' Benefit and Sole Parent Pension. 3. Originally Parenting Allowance—excludes those receiving only Basic Parenting Payment. 4. Includes Class C Widows Pension, Widowed Persons and Bereavement Allowances. 5. Includes Job Search, Newstart and Youth Training allowances. 6. Partners of unemployment, sickness or special benefits received partner Allowance from September 1994 and Parenting Allowance from July 1995. 7. Service Pensioners only. 8. Figure is for 1976.
Sources: Department of Social Security/Department of Family and Community Services, *Ten Yearly Statistical Summary, Annual Report, and DSS Customers: A Statistical Overview*, various years

Reductions in both coverage and expenditure were significant in the period 1978 to 1990, associated mainly with the reimposition of the income test on pensioners aged 70 years and over and the reintroduction of the assets test.

Figure 13: Proportion of the population of Age Pension age receiving social security payments, 1965 to 1999

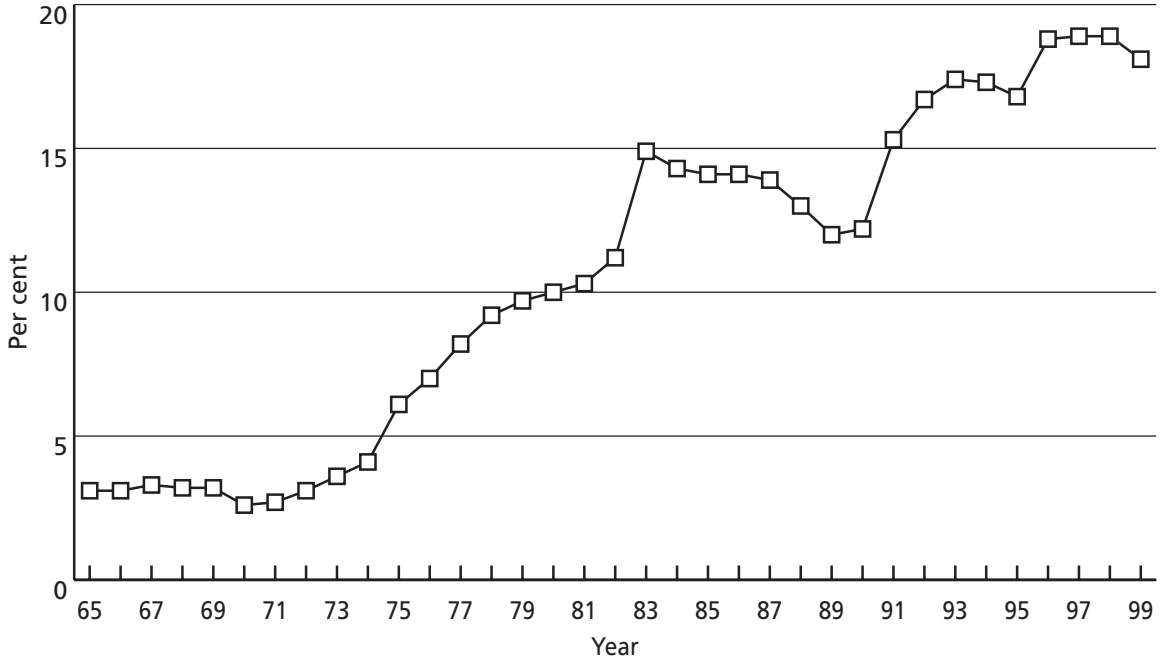


Source: DSS/FaCS Annual Reports, various years and ABS Cat. No. 3201.0, *Population by Age and Sex, Australian states and territories*, various years.

Figure 14 shows receipt of pensions and benefits among persons of workforce age from 1965 to 1999. The proportion of the population of workforce age receiving income support remained below 5 per cent up until 1974. In this period, the majority of male recipients were invalid pensioners while women received invalid, wife or widow pensions. While reliance on these payments grew after 1975, the growth in unemployment benefits from 1975 onwards dramatically altered the profile of workforce age income support.[25] The number of recipients also increased as the result of the introduction of new payments for lone mothers, the number of which initially grew rapidly. The proportion of the population of workforce age receiving payments grew to 15 per cent by 1983, and then fell back to 12 per cent in 1989, before rising again to 18.1 per cent in 1999.

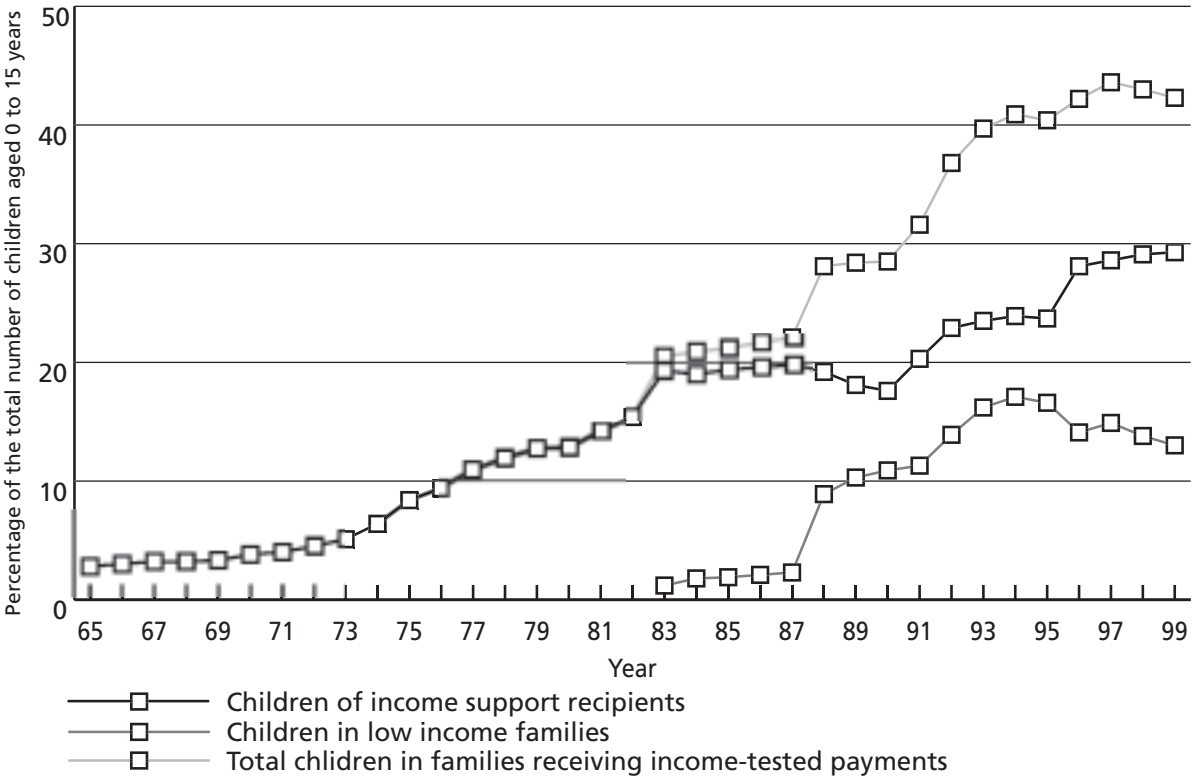
Figure 15 shows trends between 1965 and 1999 in the proportion of children living in families receiving income-tested payments from the former DSS. This percentage increased from 11.9 per cent in 1978 to 42.3 per cent in 1999. Receipt of basic income support payments is directly responsible for just under 60 per cent of this total increase. Within the income support group, increases were associated with growth in the number of lone parent families and changes in the coverage of Lone Parent Pensions/Parenting Payment among this group. The balance was caused by increases in unemployment among families with children, particularly in the first half of the 1980s and again in the early 1990s.

Figure 14: Proportion of population of workforce age receiving social security payments, 1965 to 1999



Source: DSS/FaCS Annual Reports, various years and ABS *Population by Age and Sex, Australian states and territories* Cat. No. 3201.0, various years

Figure 15: Proportion of children in families receiving income-tested social security payments, 1978 to 1999



Source: DSS/FaCS Annual Reports, various years and ABS Cat. No. 3201.0, *Population by Age and Sex, Australian states and territories*, various years

The balance of the overall increase was caused by the introduction of payments for low-income working families in 1983, and the subsequent extension of this assistance to many more families in the late 1980s and early 1990s. The high proportion of children in families receiving these payments reflects the generosity of income-testing arrangements, as discussed earlier. For example, the cut-out point for payments for a family with one child under 13 years receiving rent assistance was 72 per cent of median family income (for one-child families) in 1996–97. The cut-out point for families with three children was nearly 90 per cent of the median income for families of this type. For lone parents, the cut-out point for a family with one child was 1.7 times the median total income of all lone parent families and 98 per cent of the median earned income of all those in employment.

There are also important differences in receipt of payments by gender, as is shown in Figure 16. Currently, over 60 per cent of social security recipients are women. There are a number of reasons for this. Pension age is lower for women than for men, there are more women than men over 65, in any case, and their average age is higher. Finally, women are slightly more likely than men at all ages to be receiving income support, presumably because of lower income and assets. Not included in Figure 16 are recipients of DVA payments; their absence explains the fall in the proportion of the population over Age Pension age in receipt of payments.

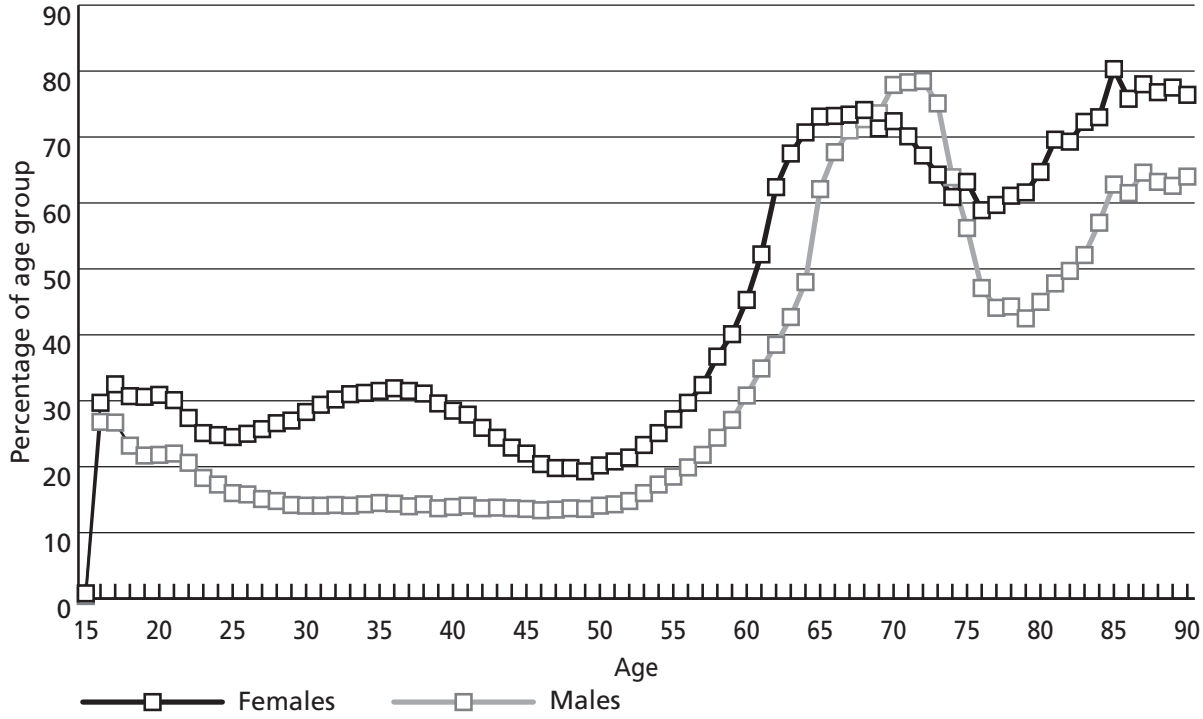
For the workforce-age population, men and women have very different patterns in payment use. Men predominantly receive unemployment payments (40 per cent of recipients), disability payments (32 per cent) or student assistance (18 per cent). Only 7 per cent receive payments as parents, carers or partners.

Almost half the women are receiving payments as parents or carers (24 per cent) or as partners or widows (19 per cent), very significantly reducing their reliance on unemployment (11 per cent) or disability payments (13 per cent).

Young people (16 to 26) have a slightly higher rate of reliance on income support than the 27 to 50 year old age group, largely due to student assistance. The proportion receiving income support increases markedly from 20.8 per cent for females, 14.3 per cent for males, at 51, reaching 40.1 per cent for females and 27.1 per cent for males by age 59 and 73.4 per cent for females and 71.0 per cent for males by 67.

These estimates of coverage are calculated as rates of receipt by comparing the total number of social security recipients and the total population. To some extent, this will give an exaggerated picture of levels of reliance on income support, as it will treat part-rate pensioners the same as persons with no other income apart from government cash benefits.

Figure 16: Income support recipients by age and gender, June 2000



Note: Does not include recipients of DVA payments.

Source: FaCS Longitudinal (Administrative) Data Set (LDS) and ABS Cat. No. 3201.0, *Population by Age and Sex, Australian states and territories*, various years

Table 9 provides estimates of the distribution of receipt of government pensions and allowances from all sources as a percentage of the total income of Australian income units in 1999–2000. The table shows patterns of receipt by age group, for lone parents, couples with children and lone persons. The identification of cash benefits as the income unit's principal source of income means that it is the largest single source, usually but not always 50 per cent or more. In terms of substantial reliance on income support, the column showing those receiving 90 per cent or more of their income from benefits is probably most relevant. Thus, while total coverage of pensions and allowances among the population aged 65 years and over is generally around 75 per cent, this table shows that only 56.3 per cent of this age group receive 90 per cent or more of their income from cash benefits.

Table 9: Contribution of government pensions and allowances to gross income of income units, by age of reference person in income unit and type of income unit, Australia, 1999–2000

	Per cent of income units by per cent of gross income					
Type of income unit	**Nil or less than 1**	**1 to less than 20**	**20 to less than 50**	**50 to less than than 90**	**90 and over**	**Principal source of income**
Reference person 15–24	73.8	2.1	2.9	2.4	13.2	15.6
Reference person 25–34	62.8	14.2	5.3	4.0	11.2	15.2
Reference person 35–44	49.9	28.2	5.0	4.7	10.6	15.5
Reference person 45–54	62.8	15.3	3.5	3.5	13.4	17.0
Reference person 55–64	55.1	5.0	4.0	5.5	28.1	33.6
Reference person 65+	14.8	3.8	6.0	18.0	56.3	74.7
Couples with children	38.4	42.9	7.1	3.6	7.2	10.7
Couples without children	60.5	4.2	4.4	9.2	20.5	29.9
Lone parents	9.0	21.6	15.6	19.9	33.3	54.5
Lone persons	60.8	1.2	2.1	4.7	27.2	31.9
All income units	52.8	12.4	4.6	6.4	21.4	28.0

Note: Percentages do not sum to 100 because totals include income units with nil or negative total incomes.

Source: ABS, Catalogue No. 6523.0, *Income Distribution*, 1999–2000

5.2 Income support dynamics

Duration of receipt

Tables 10 to 12 show available data on trends in duration of receipt of social security benefits. Table 10 shows the average current duration of receipt of unemployment payments[26] has increased from around 40 weeks in 1981 to nearly 83 weeks in 1999, with the median current duration increasing from around 20 weeks to 68 weeks over the same period. Average durations of receipt of sickness allowances fell substantially in the early 1990s, but have apparently increased subsequently. Mean and median current durations of Special Benefit have fluctuated over the past 10 years.

Table 10: Trends in duration of receipt of unemployment, sickness and special benefits and allowances, 1981 to 1999 (weeks)

Year	Unemployment		Sickness		Special	
	Mean	Median	Mean	Median	Mean	Median
1981	40.1/37.2	20.1/21.4	–	–	–	–
1982	39.1/37.4	18.6/21.3	–	–	–	–
1983	46.0/42.7	29.7/27.1	–	–	–	–
1984	57.1/47.5	33.6/27.7	–	–	–	–
1985	64.6/50.0	35.6/26.6	–	–	–	–
1986	60.6	28.1	51.4	24.7	–	–
1987	62	28.3	53	25.1	–	–
1988	65.8	30.9	52.5	26.4	–	–
1989	70.8	31.7	54.1	25.2	69.4	30.3
1990	56.6	22.4	56	26	66.6	26.3
1991	44	21.1	51	25.2	69.3	29.1
1992	50	37	26	14	66	17
1993	66	35	22	14	76	31
1994	70.7	37.3	23.5	15.7	73.2	32.3
1995	71.5	34	23.5	15.3	72.5	29.3
1996	89.2	32.7	27.7	20.6	76.8	34
1997	85.7	51	55.2	22	110.3	86
1998	92.8	59.2	51.4	22.6	133.2	75
1999	82.7	67.9	38.2	20	120	63

Notes: For 1981 to 1985, figures refer to males and females respectively. Figures for 1996 and 1997 do not include Youth Training Allowance.

Sources: 1981 to 1985: Fisher 1987; 1986 onwards: DSS/FaCS *Annual Reports*, various years; *DSS Customers: A Statistical Overview*

Table 11 shows trends in the distribution of current durations of receipt of unemployment allowances between 1977 and 1999. There has been a notable increase in the proportion of current recipients with longer durations. For example, it can be seen that between 1992 and 1993 there was a very large jump—from around 10 to 20 per cent—in the proportion of beneficiaries who had been receiving benefits for more than two years, in this case since the onset of the 1990–91 recession. In 1977, only 1.7 per cent of then current recipients had been receiving benefits for more than two years, but in 1999 this rose to almost 40 per cent. In terms of raw numbers, these trends are more stark—in 1977 there were just over 4000 unemployment beneficiaries who had been receiving payments for two years or more, while in 1999 there were over 275 000 allowees in that situation.

Table 11: Distribution of current duration of receipt of unemployment payments, 1977 to 1999, (Percentage by duration)

Year	<1 year	1–2 years	2–3 years	3–5 years	5+ years	No. (000)
1977	89.5	8.8		1.7		250.3
1978	85.1	11.4		3.5		286.1
1979	80.1	14.3		5.6		312.0
1980	78.4	13.2		8.4		296.9
1981	77.3	13.2		9.5		301.9
1982	77.0	13.4		9.6		373.4
1983	76.9	14.5	4.5	4.0		627.1
1984	64.5	21.7	7.7	6.1		580.4
1985	64.6	16.6	10.1	8.7		560.5
1986	64.8	16.3	7.5	11.4		560.2
1987	65.2	17.3	7.3	7.3	4.0	544.7
1988	63.4	17.6	7.6	6.8	5.2	470.8
1989	62.0	16.6	8.1	7.4	6.0	379.3
1990	75.0	12.4	5.8	5.3	4.5	406.1
1991	78.1	12.8	3.5	3.1	2.6	650.9
1992	61.8	27.1	5.9	3.0	2.2	831.0
1993	60.9	18.8	10.7	9.7		889.6
1994	59.8	18.0	9.3	12.8		848.6
1995	61.7	16.6	8.0	13.6		794.8
1996	65.5	18.1	6.0	10.5		825.0
1997	51.4	23.8	9.6	15.1		801.8
1998	47.4	22.0	13.2	17.4		790.3
1999	42.9	18.6	13.8	14.4	10.4	713.4

Note: Rules indicate span of several years.

Source: DSS/FaCS, *Annual Report*, various years

As duration extends, the number of recipients in this situation falls quite rapidly. Table 12 shows estimates of the 'survival rates' on benefits of persons granted in each calendar year from 1983 to 1997[27] as well as estimates of conditional exit rates. The estimated survival rates mean, for example, that of all individuals granted an unemployment allowance in the 1992–93 financial year, 28.9 per cent were still receiving a payment at 30 June 1993, 8.1 per cent were still on payments at 30 June 1994, and only 3.4 per cent were still receiving payments at 30 June 1995. The conditional exit rate is simply the year-specific proportion of the cohort who leave unemployment payments. For example, 71 per cent of those granted a payment in 1993 had left by the end of the financial year; of those remaining, a further 72 per cent left by the end of the next year, and 58 per cent of the remainder by the end of the next financial year.

Table 12: Estimated survival and exit rates on unemployment payments, 1983 to 1997

Year of grant	Estimated survival rate (%)			Conditional exit rate (%)		
	End of year	Next full year	Second year	End of year	Next full year	Second year
1983	43.2	11.3	5.1	56.8	73.8	54.9
1984	38.4	9.5	4.3	61.6	75.3	54.7
1985	42.1	10.6	4.6	57.9	74.8	56.6
1986	47.1	11.4	4.7	52.9	75.8	58.8
1987	42.8	9.7	3.8	57.2	77.3	60.8
1988	41	8.9	3.2	59	78.3	64
1989	35	7.3	3.3	65	79.1	54.8
1990	40.3	11.4	6.8	59.7	71.6	41.9
1991	40.9	18.1	7.6	59.1	55.7	57.9
1992	30.6	9.9	4.7	69.4	67.5	52.8
1993	28.9	8.1	3.4	71.1	71.9	58.2
1994	39.9	10.4	3.9	60.1	74	62.8
1995	41.6	12.7	6.6	58.4	69.6	48.2
1996	45.3	16	–	54.7	64.7	–
1997	38.6	–	–	61.4	–	–

Source: Calculated from Table 11

6 Changes in the labour force

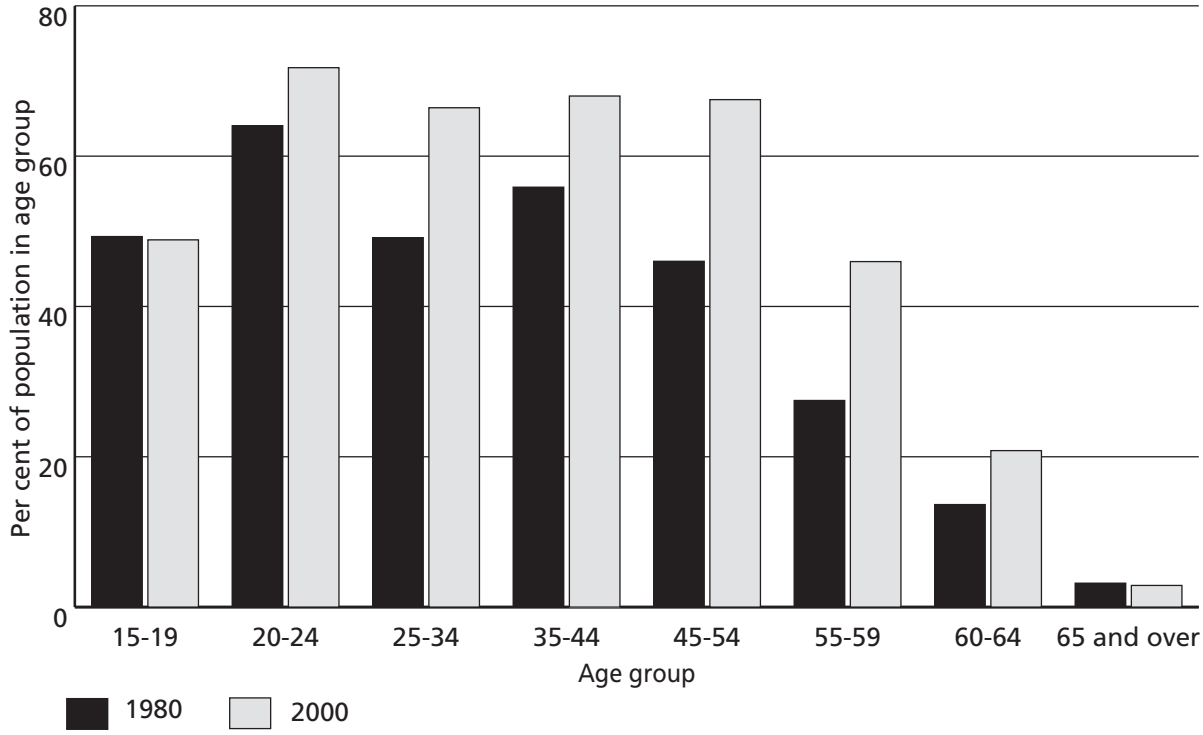
6.1 Australian trends

Over the past two decades, the proportion of the population over 15 years of age in employment has fluctuated at around 60 per cent, but there have been significant shifts between men and women and between full and part-time employment.[28]

Figures 17 and 18 show employment-to-population ratios by age group for women and men in 1980 and 2000. Men have experienced a fall in employment at all ages, particularly among those aged 55 to 59. Men aged 15 to 19 have lost full-time employment, but their part-time employment has increased. Female employment has increased at all ages except for 15 to 19 year olds and those aged 65 and over. Some of the increase is in full-time work but most is in part-time work, with the greatest net gains among married women. While some groups of single women have increased their employment ratio, this has been offset by the increase in the proportion of lone parents with lower employment levels.

The increase in male social security numbers since 1974 has accompanied the loss of male employment. Further work is needed to break down income support into corresponding age groups over that period so that patterns can be analysed, as the relationship does not appear to be simple.

Figure 17: Employment to population ratio, women, 1980 and 2000.



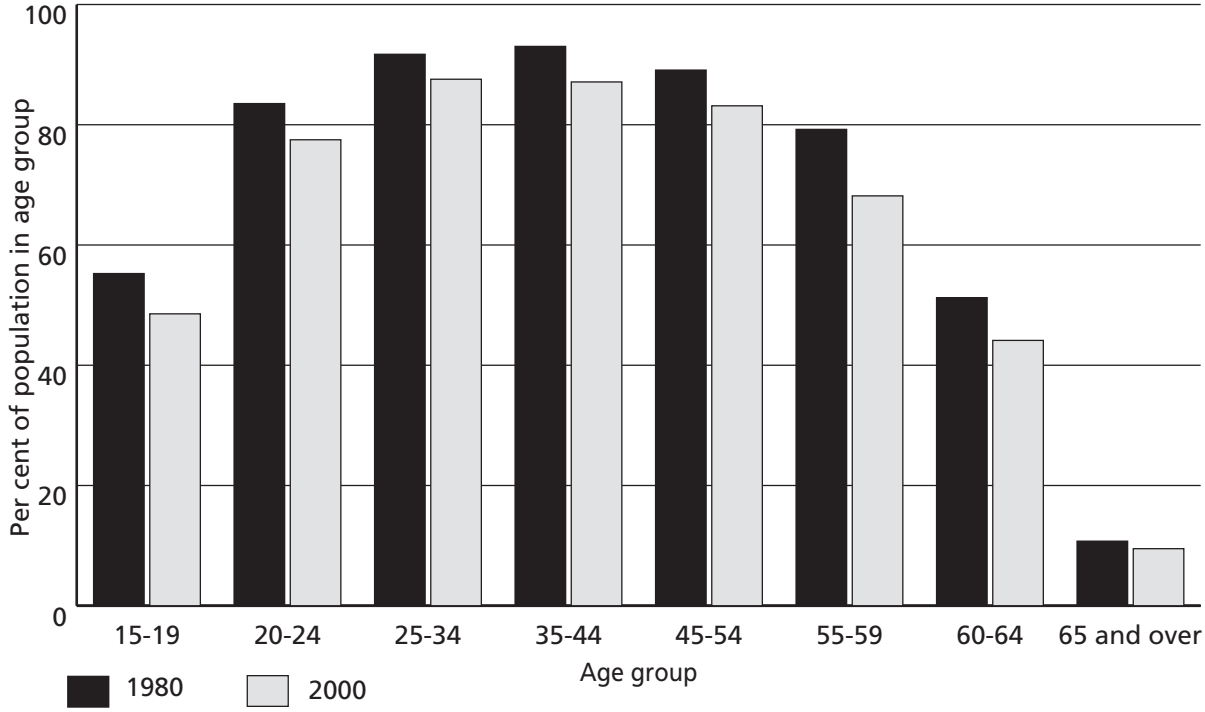
Note: Calculated by G. Angenent, Department of Family and Community Services.

Source: ABS Cat. No. 6291.0.40.001, *Labour Force, Selected Summary Tables*, Australia

The increase in female social security numbers appears to be associated with the loss of financial support from partners, either because the partner is without work or because a greater proportion are not partnered. Increases in employment among women have not played a large role in reducing the need for income support for several reasons:

- A large part of the employment growth for women has been in part-time work, which might not pay enough to be above the income support cut-out points
- Much of the gain has been among women with employed partners, while those whose partners are unemployed are unlikely to have jobs themselves
- The proportion of women aged 20 to 59 who are not partnered has grown from 25 per cent to 34 per cent over the past 20 years, and many of these have dependant children

Figure 18: Employment to population ratio, men, 1980 and 2000

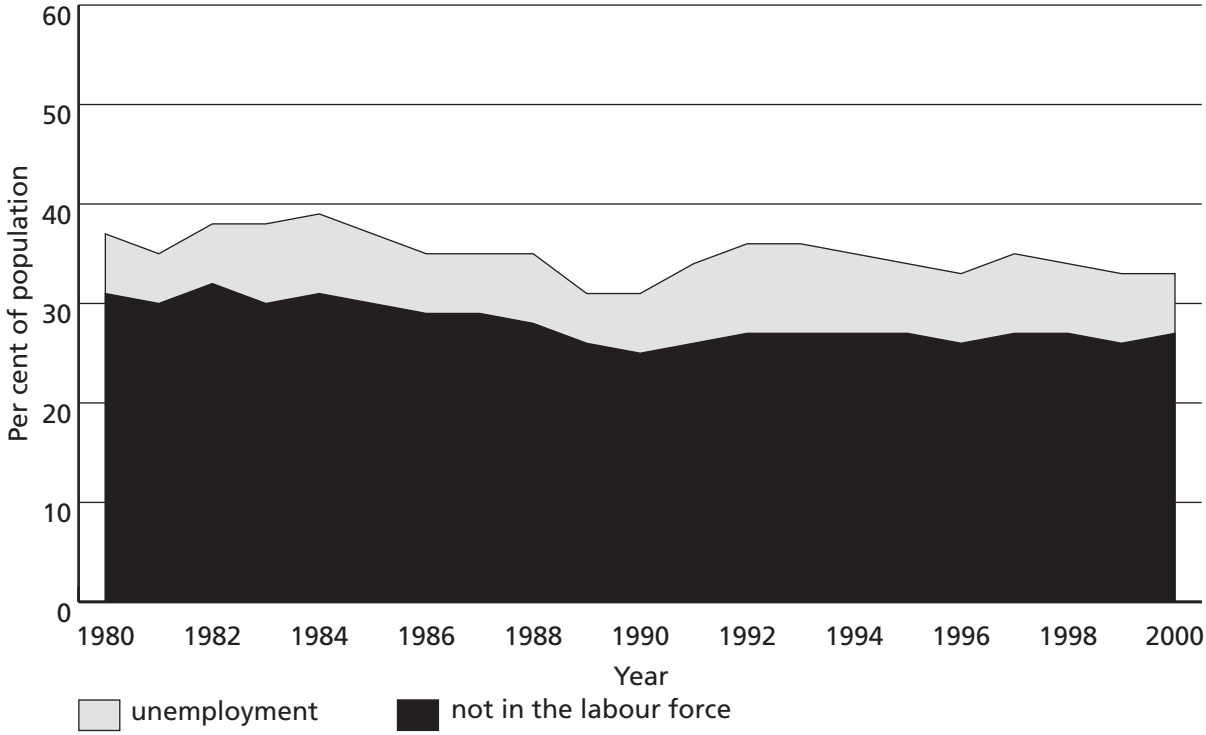


Note: Calculated by G. Angenent, Department of Family and Community Services.
Source: ABS Cat. No. 6291.0.40.001. *Labour Force, Selected Summary Tables, Australia*

Figures 19 to 21 show how the number not employed was distributed between the unemployed and those not in the labour force for the years between 1980 and 2000. The two groups are shown as percentages of the population for unmarried women, married women and married men. For men, there has been cyclical growth in unemployment and a steady decline in labour force participation. For women, labour force participation and employment have risen over the period but so has unemployment. Unmarried women have a higher labour force participation rate than married women but also have much higher levels of unemployment.

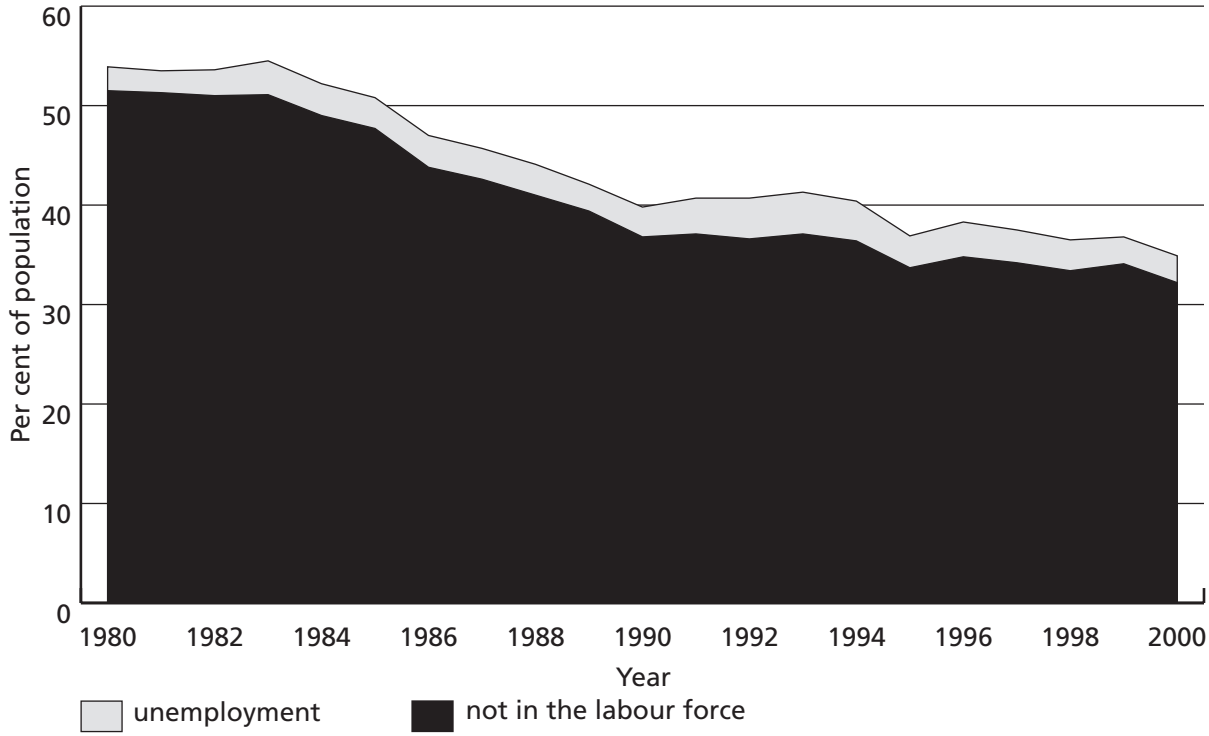
Age breakdowns of these groups show conflicting trends and have important policy implications. For example, from 1980 to 2000, the labour force participation rate for males aged 20 to 24 has fallen, but their unemployment rate has risen. Older men, on the other hand, have had a lower unemployment rate rise but have significantly reduced their labour force participation.

Figure 19: Unemployment and non-participation, unmarried women, aged 20–59, 1980 to 2000



Note: Calculated by G. Angenent, Department of Family and Community Services.
Source: ABS Cat. No. 6291.0.40.001. *Labour Force, Selected Summary Tables*, Australia

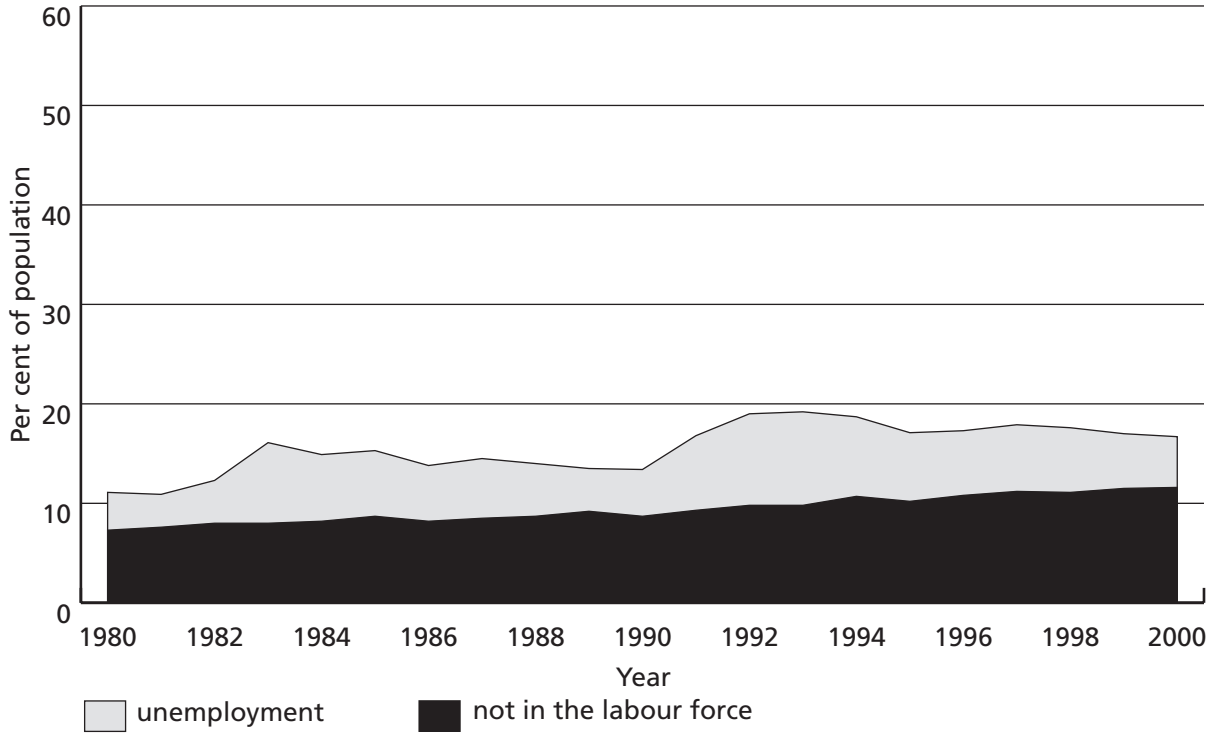
Figure 20: Unemployment and non-participation, married women, aged 20–59, 1980 to 2000



Note: Calculated by G. Angenent, Department of Family and Community Services.

Source: ABS Cat. No. 6291.0.40.001. *Labour Force, Selected Summary Tables*, Australia

Figure 21: Unemployment and non-participation, men, aged 20–59, 1980 to 2000



Note: Calculated by G. Angenent, Department of Family and Community Services.

Source: ABS Cat. No. 6291.0.40.001. *Labour Force, Selected Summary Tables*, Australia

6.2 Unemployment and labour market developments in OECD countries[29]

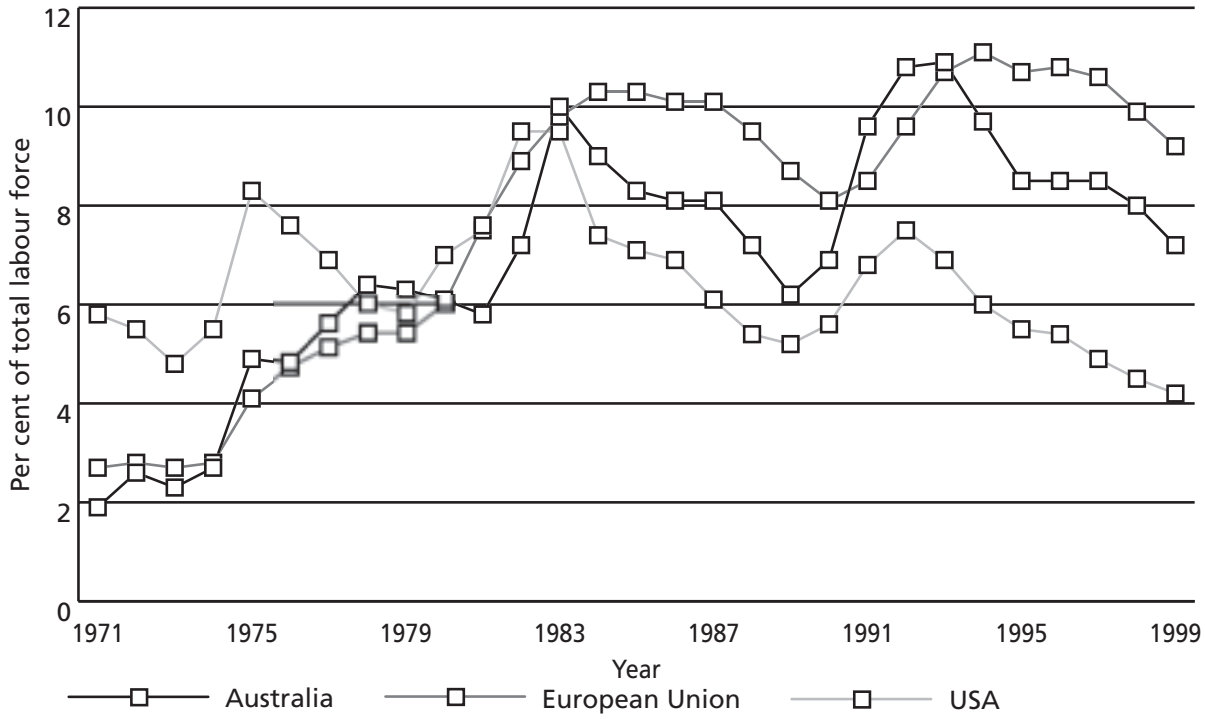
Trends in unemployment

Figure 22 shows trends in unemployment in selected countries over the past 30 years. Up until 1974, Australian unemployment was generally below 3 per cent of the labour force, below the level in Europe and the United Kingdom, and well below the level in the United States. The increase in unemployment in the 1970s in all these countries then showed a broadly similar pattern. It is notable, however, that the United States began to show a strong recovery after 1975, while unemployment in Europe continued to rise. The reduction in unemployment in Australia between 1978 and 1981 was slight, before unemployment again increased, reaching 10 per cent of the labour force in 1983.

There was a sharp reduction in unemployment in Australia and the United States in the second half of the 1980s, although not so marked as in the European Union (EU). Unemployment in the EU reached higher levels than in Australia, and stayed higher for longer. Unemployment increased again after 1990, earlier in the English-speaking countries than in Europe, and not so significantly in the United States. Since 1990, the pattern in Australia appears broadly similar to that of the United States.

Since 1983, however, Australia has also diverged from the European pattern, notably in the strength of its recovery after 1984 and since 1993. (This was also a much sharper recovery than in the late 1970s.) This may partly reflect the fact that the trend for Europe is an average for the 12 countries of the EU. Unemployment within the EU in the 1980s varied from under 2 per cent in Luxembourg to more than 15 per cent in Ireland and Spain. Apart from Luxembourg, only Germany, Greece, and Portugal among EU countries maintained a lower average unemployment rate than Australia over the 1980s.

Figure 22: Trends in unemployment rates, Australia, the United States and the European Union, 1971 to 1999



Source: OECD *Historical Database*, 2000

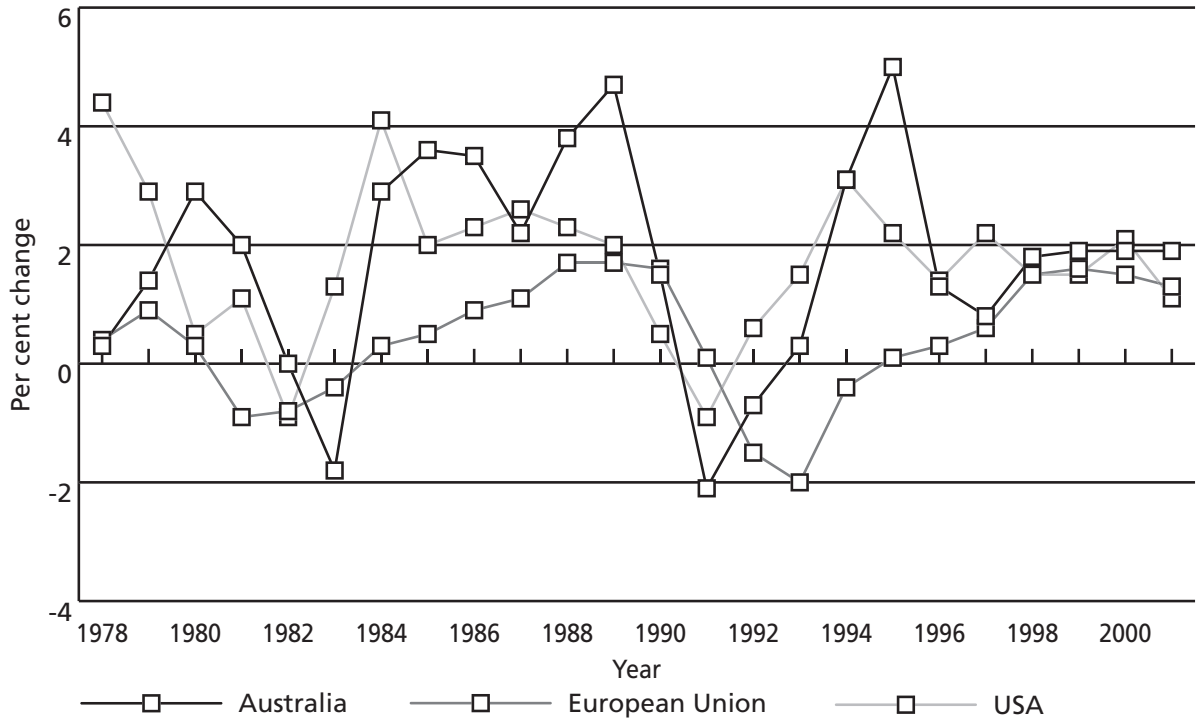
Employment growth

Figure 23 shows trends in employment growth since the late 1970s. In the United States, employment growth only fell below European levels in the period between 1990 and 1991, as a consequence of its earlier entry into recession, and when Europe entered recession its decline in employment was greater.

It is also apparent that, for most of the period shown, Australian employment growth substantially exceeded that in Europe, and moreover exceeded American levels for substantial parts of this period. At its peak in 1989 and again in 1995, Australian employment growth exceeded 4 per cent. Correspondingly, however, the troughs have been deeper in Australia in 1983 and 1991.

While Australia's overall employment growth[30] has been substantial, this has not translated into sustained reductions in unemployment. The main reasons for this are that Australia's population growth has been among the highest in the OECD, due primarily to the younger age structure of Australia and the high level of net migration.[31] There has also been a substantial increase in female labour force participation, implying that much of the employment growth has gone to those outside the labour force rather than the unemployed.

Figure 23: Trends in employment growth, 1978 to 1998 (% change from previous period)



Note: 2000 and 2001 projected.

Source: OECD Employment Outlook, various years

Unemployment flows

Monthly flows into and out of unemployment differ significantly between OECD countries. Inflows are defined as the number of people who enter unemployment in a month as a proportion of the population of working age, while outflows are defined as the number of people who leave unemployment as a percentage of the stock of unemployed. Entries and exits can be from and to outside the labour force, as well as from and to employment, and also include labour market programs as sources and destinations.

There are major differences apparent between countries, and most importantly the processes producing any set unemployment level also differ. For example, in 1994 Australia, Sweden and the United Kingdom all had broadly similar unemployment rates, but Sweden had both the highest inflows and the highest outflows; similarly, the proportion of the population who became unemployed in Australia exceeded that in the United Kingdom, but the rate of outflow was faster. These differences between flows are therefore associated with differing durations of unemployment, even though the stocks of unemployed are similar. Again, Finland and Spain had similar unemployment levels in 1995 (over 15 per cent), but flows are relatively rapid in Finland and sluggish in Spain. While Finland had about the same rate of outflow as Australia, its much higher rate of inflow produced an unemployment rate much higher than Australia's.

In many European countries, relatively few people become unemployed, but once unemployed very few people leave unemployment. In contrast, in Canada and the United States much higher proportions of the population enter unemployment, but many leave rapidly—in 1994 nearly 40 per cent of the United States unemployed either found jobs or left the labour market each month. It is also notable that the Scandinavian countries have relatively high rates of outflow, with widely varying inflows. It is likely that a sizeable proportion of these outflows in Scandinavian countries is related to the effects of labour market programs.

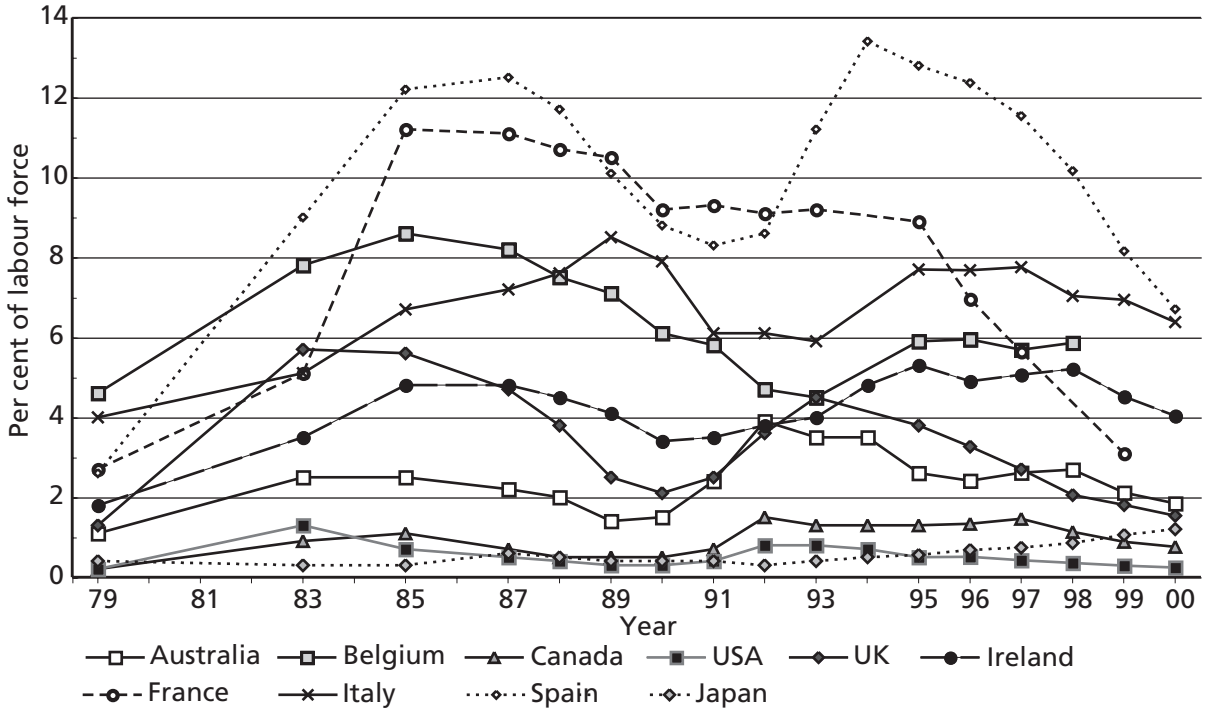
The rate of inflows varies between 0.24 per cent of the population (the Netherlands) and 2.83 per cent (Finland), while the rate of outflows varies between 2.7 per cent (Spain) and 37.6 per cent (the United States). In general terms, Australia falls between the two extremes of North America and continental Europe, with both middling inflows (0.87 per cent of the working age population) and moderate outflows (14.4 per cent of the unemployed).

Long-term unemployment

Slower flows may be associated with greater security, or at least fewer changes in status, but they also may result in longer durations of unemployment, with more adverse implications for the welfare of those out of work. Figure 24 shows trends in long-term unemployment, here defined as being unemployed for 12 months or more. The number of long-term unemployed is expressed as a percentage of the labour force, thus providing a standard measure across countries.

In many countries, there has been a substantial rise in long-term unemployment over the past 20 years. Of the countries included in this chart, long-term unemployment has remained low at around 1 per cent of the labour force in Canada, the United States and Japan. Over most of the 1980s, Australia fell into a second group with long-term unemployment around 2 per cent of the labour force, the group including New Zealand, Denmark and the Netherlands in the second half of the 1980s. Long-term unemployment increased rapidly in the late 1980s and early 1990s, but has since fallen. France and the United Kingdom experienced long-term unemployment rates of around 3 to 4 per cent over much of the 1980s. Italy and Belgium experienced higher rates again, with the highest rates of long-term unemployment being in Spain. In the past five years or so, long-term unemployment has fallen in the United Kingdom, and also markedly in Ireland and Spain.

Figure 24: Trends in long-term unemployment, 1979 to 2000



Source: OECD Employment Outlook, various years

Employment-to-population ratios

It was noted earlier that, despite a high rate of employment growth, Australia's relative unemployment performance has been less satisfactory. The earlier discussion pointed out that rapid employment growth has not been associated with corresponding reductions in unemployment, because of the growth in the size of the population of labour force age.[32]

In general terms, there have been substantial falls in male employment to population ratios in most OECD countries over the period 1973 to 1994. Most of this decline was between 1973 and 1983.[33] This was followed by a recovery in the English-speaking nations, but a further, though less steep, fall after 1990, and a slight increase since 1993. On this criterion, Australia's employment performance has come in just over the average for OECD countries, although more recently (since 1997) the male employment-to-population ratio has fallen to just below the OECD average, although it remains above that for most of continental Europe.

Over the same period, female employment has grown in most OECD countries. The Australian pattern appears to follow the trend in the USA and the UK, although at a lower level. In 1999, Australian female employment ratios were just above the OECD average, and are currently very similar to the levels in Austria, the Netherlands and New Zealand.

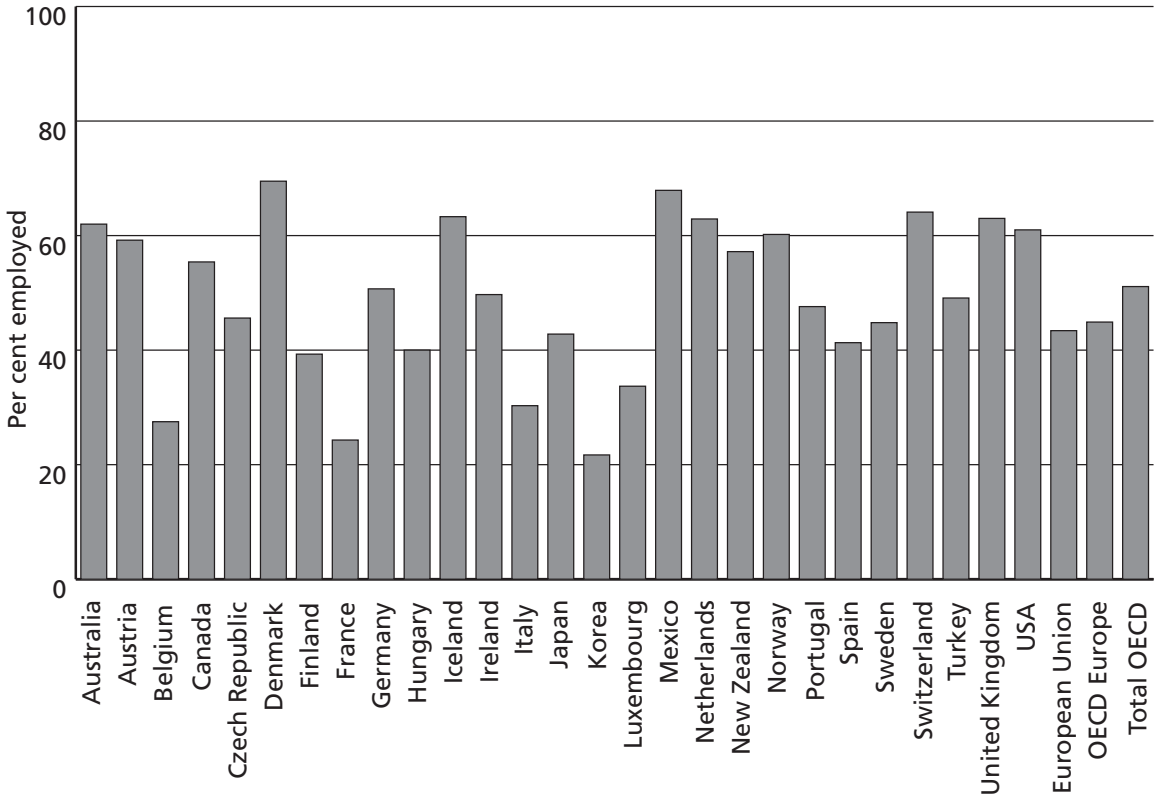
To a very large extent, the most significant differences in employment to population ratios are among young people and those in pre-retirement age groups, as shown in Figures 25 and 26. For men aged between 15 and 24 years, the employment-to-population ratio ranges between 17.3 per cent in France and 67 per cent in Iceland. The employment-to-population ratio for this

group is 59.6 per cent in Australia, the fifth highest of 27 OECD countries, being exceeded only in Iceland, Switzerland, Denmark and the Netherlands. For women in this age group, the employment-to-population ratio ranges between 21.7 per cent in Korea and 69.5 per cent in the Denmark. Australia is ranked seventh at 62 per cent, being more than 20 per cent higher than the average for the 27 countries.

While not shown in the charts, for men aged between 25 and 54 years, the Australian employment-to-population ratio (85.3 per cent) is just under the OECD average of 88.5 per cent, ranking 21st. Among women aged 25 to 54 years, the Australian employment-to-population ratio (65.6 per cent) is above the OECD average of 63.6 per cent and ranks Australia at 19th.

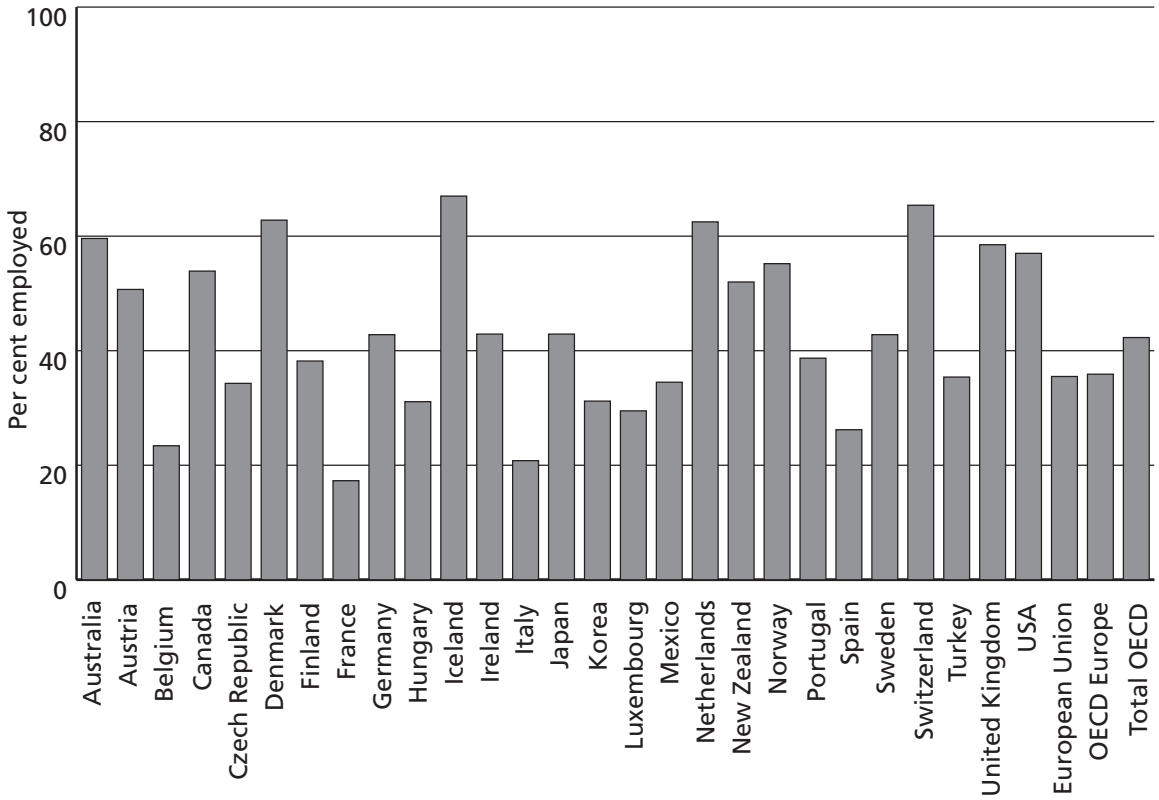
For men aged 55 to 64 years, the Australian employment ratio is just under the OECD average at around 57 per cent. This ratio is highest in Iceland at 93.2 per cent, and is also very high in Mexico. The ratio is low, at below 40 per cent of the population in Hungary, Belgium, Luxembourg and France. Employment among women aged 55 to 64 years is highest in Iceland and Switzerland and lowest in Hungary, Belgium and Italy. The Australian level is below the OECD average for this group, but exceeds that in 13 other OECD countries.

Figure 25a: Employment to population ratios for men aged 15–24, 1999 (% employed)



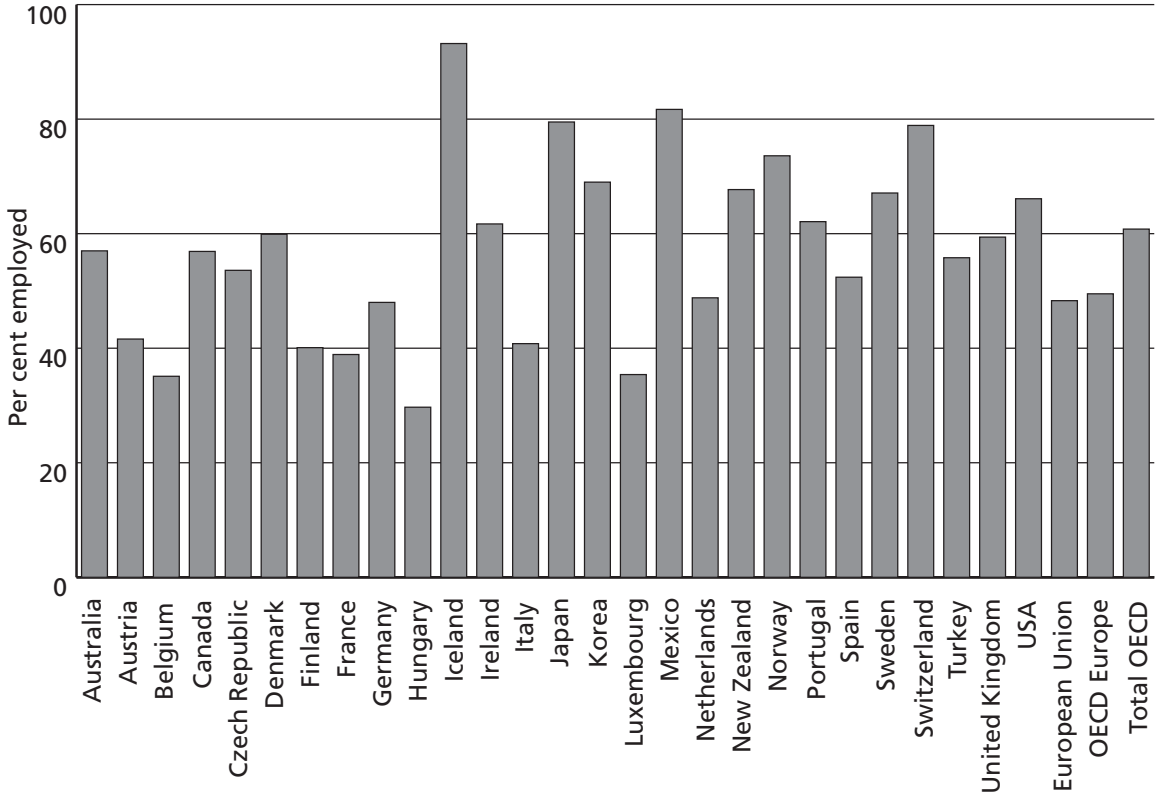
Source: OECD Employment Outlook, 2000

Figure 25b: Employment to population ratios for women aged 15–24, 1999 (% employed)



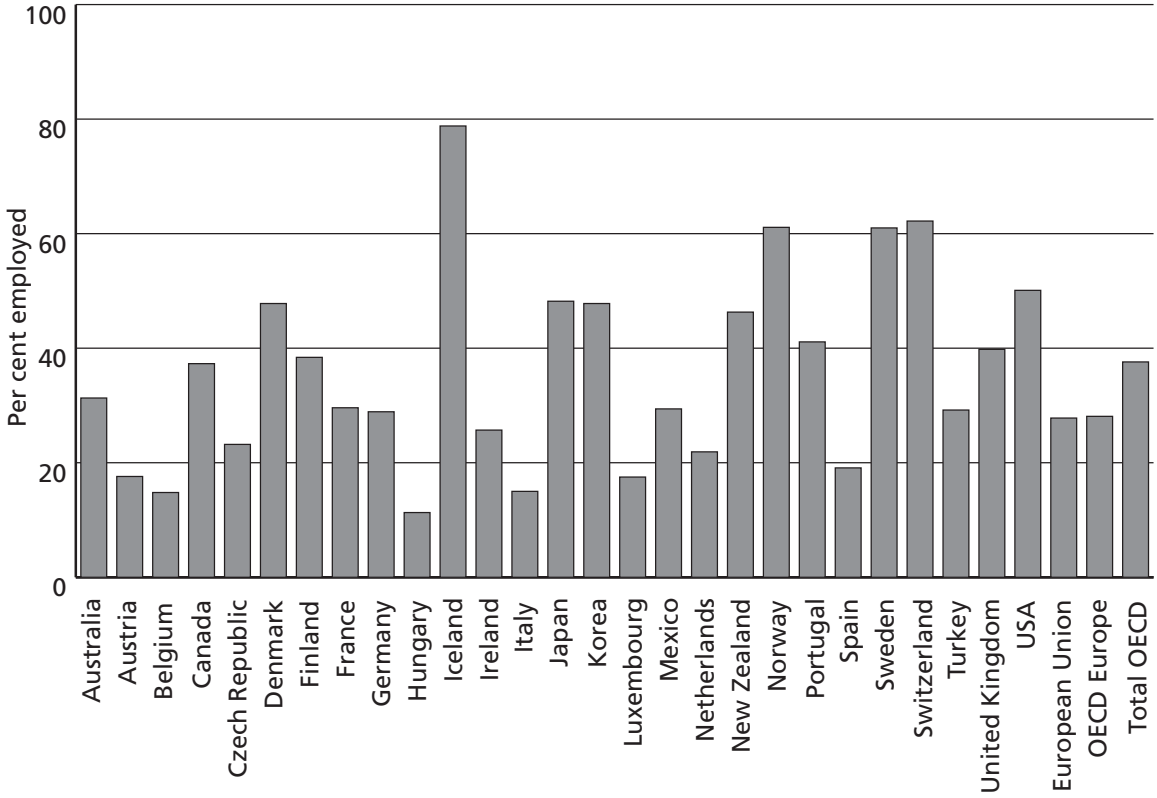
Source: OECD Employment Outlook, 2000

Figure 26a: Employment to population ratios for men aged 55–64, 1999 (% employed)



Source: OECD Employment Outlook, 2000

Figure 26b: Employment to population ratios for women aged 55–64, 1999 (% employed)



Source: OECD Employment Outlook, 2000

Trends in employment-to-population ratios in the 1980s therefore suggest labour markets in English-speaking countries did perform better—in trend terms—than did the labour markets of most European countries, although the performance of the Scandinavian countries, Japan and Switzerland was generally more successful in terms of maintaining higher levels of employment.[34] The United States and Australia did better than either Canada or the United Kingdom.

It also appears that one of the main factors contributing to Australia's better than average performance over this period was the relatively high level of youth employment, with Australia being among the group of four or five OECD countries with the highest level of employment among both men and women aged 15 to 24 years. At the other end of the working-age spectrum, Australia did relatively less well. It should be remembered, however, that care needs to be taken in interpreting labour force statistics for those in transitional phases of labour force attachment. For example, the higher employment levels of Australians under the age of 25 years largely reflect the combination of educational participation and part-time employment.

The role of self-employment

In 1990, employment in agriculture (including employees) was 5.6 per cent of civilian employment in Australia compared to an OECD average of 7.5 per cent. According to OECD (1992) estimates, non-agricultural self-employment in Australia was equal to 12.4 per cent of

non-agricultural civilian employment in 1990, exactly the OECD average. The proportion of the non-agricultural self-employed with employees was 36 per cent in Australia, also around the OECD average. It is worth noting that the level of self-employment in Australia was broadly stable as a percentage of total employment over the 1980s, although this means that the number of self-employed people has grown rapidly (as has the number of employees). In contrast, the proportion of all workers who are self-employed has grown significantly in the United Kingdom, Portugal and New Zealand.

Australia has one of the lowest levels of unpaid family work of any OECD country, being similar to the level in New Zealand, Norway and Sweden. The average weekly hours worked by the self-employed in Australia appear to be the lowest of all OECD countries (OECD 1992, p.161).

In summary, Australia has had a relatively high level of self-employment for many years, with the increase in self-employment over the 1980s being in line with general employment trends. In contrast, the United Kingdom has seen a substantial shift from dependant employment to self-employment, at a rate that exceeds that in all other OECD countries.

Unemployment and family status

From a social protection perspective, unemployment may raise particular concerns to the extent that it impacts on families. This is partly because more people will be adversely affected than is indicated by the unemployment rate. In addition, there will be concerns that children's education and general welfare will suffer, or that their own future work status will be undermined by the lack of a 'positive role model' in work. This later aspect will be dependent on the extent of long-term unemployment among parents. In Europe, such situations are seen to carry the danger of leading to 'exclusion' from social life, while in the United States and the United Kingdom similar concerns are expressed in terms of the generation of an 'underclass'. In a broadly similar fashion, the increased level of unemployment in Australia in the early 1980s disproportionately affected families with children and was strongly implicated in the heightened concern with child poverty in the middle and late 1980s.

In all OECD countries, most unemployed people live in families, although this includes couples with and without dependant children, and non-dependant children living with their parents. In the mid-1980s, the proportion ranged between 72 per cent in the Netherlands and 98 per cent in Spain, Portugal and Italy. Australia was toward the lower end of this range at 84 per cent, and similar to the level in the United States. In 1993, the picture was similar. The proportion of the unemployed living in families ranged between 78 per cent in the Netherlands and 79 per cent in Australia to more than 95 per cent in Greece, Italy, Portugal, Spain and Turkey.

In Australia, married men account for just over a quarter of the total unemployed, a fraction over the OECD average (23.5 per cent). Married women accounted for 15.7 per cent of the unemployed in Australia in 1993, compared to an OECD average of 21.6 per cent. Female lone parents were 4.8 per cent of the unemployed, compared to 4 per cent for the OECD average. However, most countries with lower proportions of the unemployed being lone parents have much lower levels of lone parenthood.

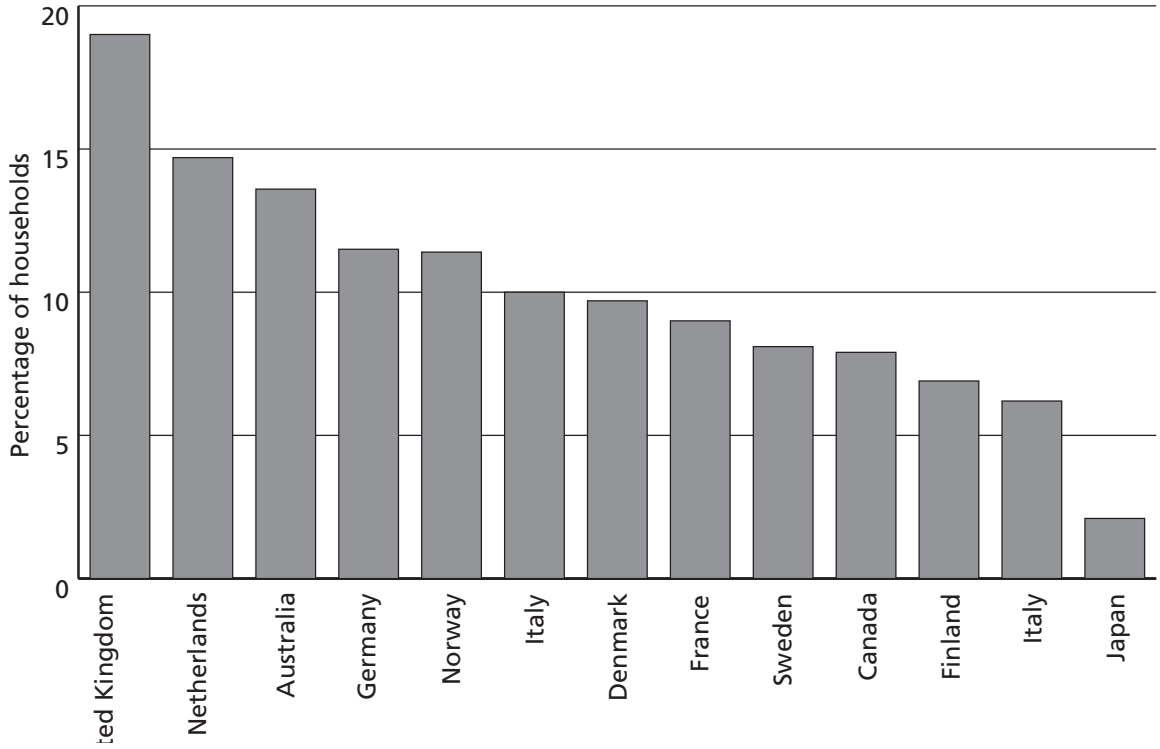
While having a lower incidence of unemployment among families, Australia appears to have a relatively high concentration of non-employment among couples. In the mid-1980s, around 71 per cent of unemployed married men[35] in Australia lived in households in which no one else was employed. This was the second highest level after Ireland. This concentration was also high in the Netherlands, Belgium, the United Kingdom, Spain and Greece. In 1993, the corresponding proportion was 65 per cent in Australia, exceeded only in Turkey, and with the same countries having high concentrations as in the mid-1980s.

For married women the pattern was similar. In 1985, around one-fifth of unemployed married women in Australia lived in households in which no one else was employed. In 1993, this had risen to around one-third, a proportion higher than in any other country for which data were available. After Australia, Ireland and the United Kingdom had the highest proportion of wives in this situation, at 29 and 28 per cent respectively.

Overall, a relatively high proportion of the Australian unemployed lived in households in which no one else was employed—around 44 per cent in 1985 and 50 per cent in 1993. In 1993, this ratio was exceeded only in the United Kingdom and Ireland, although the ratio was also 45 per cent or higher in Belgium, Germany and the Netherlands.

Correspondingly, a relatively high proportion of Australian households appear to have no workers. Figure 27 shows recent OECD estimates based on Household Expenditure Surveys of the share of households with a head of workforce age and no workers. It is apparent that, of the 13 countries shown[36], Australia had the third highest level of worklessness among households.

Figure 27: Share of households with head of workforce age with no workers, OECD, around 1995



Source: OECD Employment Outlook 1998.

As noted by the OECD, the long-term unemployed living in households where there is no one else employed may be particularly vulnerable to social exclusion. Between 15 and 25 per cent of the unemployed in most OECD countries are in this situation. This proportion is highest in Ireland at 31 per cent, followed by the United Kingdom (27.8 per cent), Belgium (27.5 per cent), then Australia (23.3 per cent), the Netherlands (23 per cent) and France (20.5 per cent).

These somewhat contradictory patterns probably reflect a number of influences. The fact that a lower proportion of all the unemployed in Australia live in families obviously implies that a higher proportion live away from their families. That is, youth and single adults who are unemployed are more likely to live independently in Australia. This may reflect cultural patterns, as it is notable that the unemployed in Southern Europe are particularly likely to live in families.

It is plausible that the other patterns identified result in part from Australia's means-tested unemployment assistance scheme. In most other OECD countries, apart from New Zealand, the unemployed are initially covered by unemployment insurance, under which entitlements are individually based and not subject to family income tests. Thus, married women whose husbands are in work will be entitled to some insurance benefits, so long as they have satisfied the contribution requirements. In Australia, however, unemployed wives have generally been excluded from unemployment benefit if their husbands are in paid employment. This may partly explain why married women are a lower proportion of the unemployed in Australia than elsewhere.[37]

However, where women are married to unemployed men the operation of the family income test in the past would have meant that any of their own income would reduce their partners' unemployment assistance, perhaps influencing their own withdrawal from or non-participation in the labour force (Scherer 1978; Pech 1991; Bradbury 1995). This same effect may have operated in other OECD countries, but only after rights to insurance benefits had lapsed. Thus, there was the possibility that married women were subject to a sort of 'double bind'. If they became unemployed, their husband's income would probably exclude them from unemployment benefit. If they were in employment and their husband became unemployed, then the benefit income test would substantially reduce the gains from their employment, unless their own earnings were sufficient to completely support the family. The actual impact of these potential effects is subject to dispute (Bradbury 1995). Nevertheless, the reforms to unemployment assistance arrangements following from Working Nation (1994) were specifically designed to address such concerns.

The dispersion of earnings

For many years, there has been a widely held view that Australia was characterised by a relatively equal distribution of earned income. This view goes back to the turn of the century, and partly springs from Australia's position as a pioneer (with New Zealand) in social legislation, particularly in wage fixation arrangements. One of the most often cited sources for this view was Lydall's (1968) survey of earnings inequality, which concluded that, among 25 countries surveyed, Australia and New Zealand, along with Czechoslovakia and Hungary, had the lowest degree of dispersion of (pre-tax) employment income.

More recent data also show Australia as having a relatively compressed distribution of earnings in the 1980s. Green et al. (1990) surveyed earnings inequality for male household heads working full-year, full-time and ranked Australia behind West Germany, but ahead of Sweden, Canada and the United States in the mid-1980s. Saunders and Fritzell (1995) compared wage inequality among full-year, full-time male workers in Australia and Sweden at the beginning and end of the 1980s and concluded that there was little difference between the distribution of wages in the two countries.[38] Bradbury (1993) compared wage distributions for male, full-year, full-time workers in Australia, Canada, Germany, Sweden, the United Kingdom and the United States in the mid-1980s. He found that the distribution of gross wages in Australia fairly consistently ranked as the second least unequal, although if employer social security contributions are considered as part of the wage package, Australia falls to being the third least unequal. Gottschalk (1993) found that earnings inequality among male family heads in Australia was lower in both the early and middle 1980s than in Canada, France, the United Kingdom or the United States, being similar to the Netherlands, although not so equal as in Sweden.

Smeeding and Coder (1993) analysed the dispersion of household earnings for six countries in the mid-1980s for households where the head was aged between 25 and 55. They found that, after Sweden and the Netherlands, Australia had the least dispersed distribution, with the ratio of the earnings of the 80th to the 20th percentiles being 2.7 in Australia compared to 2.6 in Sweden, 2.5 in the Netherlands, 3.0 in Canada, 3.8 in the United States and 5.6 in the United Kingdom. This approach, therefore, incorporates the effects of inequalities between men and women as well as between full and part-time workers.

The conclusion that Australia has had a relatively compressed earnings distribution for individuals is also supported by a range of OECD studies, which include a wider range of countries and also consider the distribution of female earnings. The OECD (1993) assessed trends in the level of earnings inequality in OECD countries between the 1970s and the early 1990s. Inequality was measured by the ratio of earnings of full-time workers at different points in the distribution to the median, with D9/D5 being the ratio of the 90th percentile point to the median, D1/D5 being the ratio of the 10th percentile point to the median, and D9/D1 being the ratio of the 90th percentile to the 10th percentile. In 1991, the D9/D1 ratio was 2.27 for Australian males and 1.99 for Australian women. In Canada, in contrast the ratio was around 4.0 for both men and women, and in the USA it was 4.9 for women and 5.6 for men.

In 12 of the 17 countries, the dispersion of earnings increased over the 1980s, although, as noted by the OECD, this increase in inequality was small—except in the cases of the United States and the United Kingdom. In Australia, Canada and the United States, the increased dispersion appeared to be associated with declines in the real level of wages at the lower level, while in the other countries where inequality increased, it was associated with more substantial real increases at higher earnings levels. For example, according to these OECD figures, the real earnings of the 10th percentile of male earners in the United Kingdom increased by 11 per cent, but the increase at the 90th percentile was 51 per cent.[39]

In summary, despite the increase in earnings inequality in Australia over this period, the distribution appears[40] to remain less unequal than in many other of these countries. Only Sweden and Italy had a less dispersed distribution of earnings for men, and only Sweden had a

less dispersed distribution for women. In Denmark and Norway, it is not possible to separate the figures for men and women, but the low ratios suggest that earnings inequality is less than in Australia or Italy, being particularly equal in Norway. The dispersion of earnings in the Netherlands and Belgium was similar to that in Australia.

More recent data are shown in Table 13, which compares the D9/D1 ratio for full-time workers in the second half of the 1990s. It can be seen that Australia had the eleventh lowest ratio of 24 OECD countries, and the eighth lowest level of low pay. The OECD (2001) also found that the incidence of low pay increased in Australia between 1975 and 1983, but then fluctuated around a stable level between 1983 and 1999.

Table 13: Incidence of low pay and earnings dispersion, selected OECD countries, mid-to late 1990s

Country	Year	Incidence of low pay	Earnings dispersion
Sweden	1998	5.3	2.18
Denmark	1995	5.6	2.04
Finland	1994	5.9	2.35
Italy	1996	6.1	2.39
Belgium	1995	7.3	2.28
Switzerland	1996	13.1	2.74
Austria	1996	13.5	2.70
Australia	1999	14.3	3.00
Netherlands	1997	14.6	2.83
Japan	1998	14.7	2.98
France	1995	14.9	3.20
Czech Republic	1999	15.1	2.93
Portugal	1995	16.9	4.56
Germany	1995	17.0	3.53
New Zealand	1997	17.7	3.41
Spain	1995	18.3	3.97
Poland	1999	18.7	3.54
Luxembourg	1995	19.0	3.67
United Kingdom	1999	19.3	3.40
Canada	1997	20.9	3.70
Ireland	1995	21.1	3.51
Hungary	1998	22.0	4.21
Korea	1998	23.8	3.85
United States	1999	24.5	4.57

Notes: Low pay is defined as the percentage of full-time workers earning less than two-thirds of full-time median earnings. Earnings dispersion is the ratio of the 9th decile to 1st decile earnings of all full-time workers.

Source: OECD, 2001, pp. 66–67, and Annex.

Comparative research also suggests that Australia has a relatively high minimum wage. The ratio of the minimum wage to median full-time earnings in Australia in 2000 was 57.9 per cent, the second highest (after France) of 20 OECD countries (OECD, 2001, pp. 70–71). However, this ratio had declined somewhat in Australia since the mid-1980s (from 64.6 per cent in 1985), when Australia had by far the highest minimum wage of these OECD countries.

The gender-wage gap is also comparatively low in Australia. In 1999 the difference between male and female median full-time earnings was 14.3 per cent (of male median full-time earnings). Australia had the fourth lowest gap of 24 OECD countries, with the gap ranging from between 11 and 15 per cent in Belgium, Denmark, France and Australia, to more than 25 per cent in Austria, Ireland, Canada, Spain and Portugal, and to nearly 40 per cent in Japan and Korea (OECD, 2001, pp. 68–69.)

In summary, evidence from OECD sources is consistent with the view that even in the late 1990s Australia had a less unequal distribution of income from earnings than the majority of OECD countries. This was associated with a relatively high minimum wage level, a narrow gap between male and female earnings and a smaller share of low pay than many other countries. The most likely explanation for this is the legacy of Australia's wage fixing institutions continued to compress wage differentials.

7 Poverty and income inequality

7.1 Adequacy of payments

Given that alleviation of poverty is one of the primary objectives of the Australian income support system, it should be regarded as a key measure of the success or otherwise of social security spending.

In assessing the impact of the system on trends in poverty, there are a number of conflicting considerations to bear in mind. On the one hand, levels of unemployment and of non-participation among men have increased substantially. These trends, together with the increase in the extent of lone parenthood[41], are likely to have contributed to an increase in the extent of vulnerability to poverty among people of workforce age. These trends are also likely to be associated with significant changes in the composition of the low-income population. In the past, it was the retired elderly who were most likely to be in poverty, whereas now it appears to be lone parents and the unemployed.

Earnings surveys also show some widening of wages dispersion among individuals over the past 15 years, particularly associated with a fall in the real earnings of the low paid. It is difficult to determine whether this is associated with changes in wage rates or changes in the composition of the workforce. On the other hand, the wages of women have increased relative to male earnings, thus tending to reduce dispersion. Analysis of data from income surveys over the 1980s (Eardley 1997) suggests an overall reduction in the size of the low paid workforce (from 15 to 13 per cent of all workers), because a marginal increase in low pay among men (from 10 to 11 per cent) was swamped by a large fall in the proportion of low paid women (from 23 to 16 per cent). The extension of more generous family assistance to those in low paid work could be expected to reduce poverty among this group.

In addition, the adequacy of basic income support payments has been very substantially increased over time (Table 14). For example, in 2001 the real level of the single adult rate of unemployment payments was 2.44 times its level in 1965 and the real level of payment for a lone parent with one child was 1.90 times the 1965 level. The real level for a couple on unemployment benefits without children was 2.55 times the 1965 level, 2.64 times higher with children (2.94 times including rent assistance).

These real increases in basic payment rates were largely achieved in the period 1970 to 1975, when the McMahon and the Whitlam Governments increased pensions and benefits. Most basic payments (apart from the single rates of unemployment allowances) were subsequently indexed to inflation. Payments for children were substantially increased from the mid-1980s onwards and rent assistance was increased in the late 1980s and early 1990s. Virtually all payments are now indexed at least to the CPI while pension rates are now also adjusted in line with MTAWE.

These real increases in payment levels could be expected to have reduced poverty, as could the increase in the receipt of additional income from earnings and child support.

Table 14: Trends in the real value of social security payments for different family types, 1965 to 2001, (2001 prices)

Year	1965	1972	1976	1982	1983	1989	1996	1997	1999	2000	2001
Unemployment allowance, no rent assistance											
Single	$3 811	$4 371	$8 574	$7 065	$7 077	$8 423	$8 559	$8 824	$9 103	$9 113	$9 303
Couple, no children	$6 582	$7 118	$14 269	$14 454	$14 427	$15 036	$16 139	$16 363	$16 423	$16 440	$16 786
Couple, one child	$7 506	$8 706	$16 026	$16 141	$16 076	$17 108	$18 761	$19 044	$19 406	$19 444	$19 807
Couple, two children	$8 661	$10 561	$17 896	$17 818	$17 861	$19 820	$22 180	$22 532	$22 388	$22 447	$22 828
Couple, three children	$10 047	$12 722	$19 989	$19 607	$19 647	$22 155	$24 802	$25 214	$25 370	$25 451	$25 849
Couple, four children	$11 433	$14 965	$22 140	$21 395	$21 435	$24 972	$28 435	$28 918	$28 570	$28 672	$29 078
Pension no rent assistance											
Single, no children	$5 490	$6 062	$8 574	$8 670	$8 654	$9 021	$9 674	$9 809	$10 101	$10 223	$10 452
Single, one child	$8 261	$9 784	$11 678	$11 358	$11 199	$11 977	$13 184	$13 487	$14 118	$14 255	$15 282
Single, two children	$9 416	$11 639	$13 548	$13 237	$13 069	$14 689	$16 603	$16 975	$17 100	$17 259	$20 113
Single, three children	$10 802	$13 800	$15 642	$15 425	$15 200	$17 024	$19 225	$19 657	$20 082	$20 262	$24 943
Single, four children	$12 188	$16 043	$17 792	$17 613	$17 331	$19 841	$22 858	$23 360	$23 282	$23 483	$29 981
Couple, no children	$10 056	$10 725	$14 269	$14 454	$14 427	$15 036	$16 139	$16 363	$16 859	$17 066	$17 446
Couple, one child	$10 980	$12 321	$16 026	$16 141	$16 076	$17 108	$18 761	$19 044	$19 842	$20 070	$20 467
Couple, two children	$12 134	$14 174	$17 896	$17 818	$17 861	$19 820	$22 180	$22 532	$22 824	$23 074	$23 488
Couple, three children	$13 520	$16 336	$19 989	$19 607	$19 647	$22 155	$24 802	$25 214	$25 806	$26 078	$26 510
Couple, four children	$14 905	$18 579	$22 140	$21 395	$21 435	$24 972	$28 435	$28 918	$29 007	$29 299	$29 738
Unemployment allowance with rent assistance											
Single	$3 811	$4 371	$8 574	$7 065	$7 077	$9 529	$10 595	$10 936	$11 222	$11 235	$11 591
Couple, no children	$6 582	$7 118	$14 269	$14 454	$14 427	$16 142	$16 362	$18 356	$18 419	$18 435	$18 938
Couple, one child	$7 506	$8 706	$16 026	$16 141	$16 076	$18 222	$21 118	$21 509	$21 882	$21 922	$22 486
Couple, two children	$8 661	$10 561	$17 896	$17 818	$17 861	$20 934	$24 544	$24 997	$24 864	$24 926	$25 507
Couple, three children	$10 047	$12 722	$19 989	$19 607	$19 647	$23 269	$27 493	$28 002	$28 165	$28 254	$28 878
Couple, four children	$11 433	$14 965	$22 140	$21 395	$21 435	$26 087	$31 132	$31 706	$31 365	$31 475	$32 106

Table 14: Trends in the real value of social security payments for different family types, 1965 to 2001, (2001 prices) (continued)

Year	1965	1972	1976	1982	1983	1989	1996	1997	1999	2000	2001
Pension with rent assistance											
Single, no children	$5 951	$6 771	$9 697	$9 439	$9 700	$10 127	$11 712	$11 921	$12 220	$12 345	$12 740
Single, one child	$8 724	$11 004	$12 801	$12 125	$12 240	$13 091	$15 531	$15 952	$16 594	$16 734	$17 961
Single, two children	$9 878	$12 859	$14 671	$14 004	$14 110	$15 803	$18 957	$19 439	$19 576	$19 738	$20 983
Single, three children	$11 263	$15 020	$16 764	$16 193	$16 242	$18 139	$21 906	$22 444	$22 877	$23 066	$24 353
Single, four children	$12 649	$17 263	$18 915	$18 381	$18 372	$20 956	$25 545	$26 148	$26 077	$26 287	$27 582
Couple, no children	$10 517	$11 434	$15 392	$15 223	$15 475	$16 142	$16 362	$18 356	$18 855	$19 062	$19 599
Couple, one child	$11 441	$13 030	$17 148	$16 912	$17 122	$18 222	$21 118	$21 509	$22 318	$22 549	$23 146
Couple, two children	$12 597	$14 883	$19 018	$18 587	$18 908	$20 934	$24 544	$24 997	$25 300	$25 553	$26 167
Couple, three children	$13 982	$17 045	$21 112	$20 377	$20 694	$23 269	$27 493	$28 002	$28 601	$28 881	$29 538
Couple, four children	$15 368	$19 288	$23 262	$22 164	$22 482	$26 087	$31 132	$31 706	$31 802	$32 102	$32 767

Source: Calculated from Moore and Whiteford (1986), and personal calculations

7.2 Trends in poverty and inequality

Despite the central importance of these issues, problems of measurement are such that there is no consensus on the trend or level of inequality and poverty in Australia. This is shown in Tables 15 and 16. Some studies find rising inequality, while some find inequality to be stable or falling. The most notable point is that the trend in income inequality, whatever it might be, is not particularly strong, with many of the differences in the Gini coefficients unlikely to be statistically significant.

The estimates of poverty rates by different authors are more substantial. It is possible to argue either that poverty increased by around 60 per cent over the 1980s (Saunders 1994) or that it fell by more than 20 per cent (Harding & Mitchell 1992).

These contradictory results arise because researchers focused on different aspects of income and used differing methods of analysis. Technical choices may have a decisive influence on apparent trends, as well as on the picture of the underlying extent of poverty. Having said this, the lack of strong or clear trends is consistent with the view that, while underlying social and economic problems have increased, improvements in social security benefit levels and greater targeting of benefits tended to some extent offset these trends.

Table 15: Results of studies of inequality in Australia

Study	Income Concept	Period	Data Source	Main Results
Bradbury and Doyle 1992	Cash disposable income, equivalised	1983–84 to 1989–90	Microsimulation, IDS	Gini increased from .367 to .370
Gregory 1993	Individual gross earnings, not equivalised	1976 to 1990	Weekly Earnings of Employees (WEED)	Growth in low paid and high-paid jobs—the 'disappearing middle'
Saunders 1993	Cash disposable income, equivalised	1981–82 to 1989–90	IDS	Gini increased from .27 to .29
Harding 1994	Gross income, equivalised	1981–82 to 1989–90	IDS	No change in Gini
Raskall and Urquhart 1994	Social wage income (health, schooling), equivalised	1982–83 to 1989–90	Microsimulation, IDS	Gini increased from .272 to .276
Whiteford 1994	Cash disposable income, equivalised	1982–83 to 198–90	Microsimulation, IDS	Gini fell from .328 to .319
Gregory and Hunter 1995	Gross household income of areas, not equivalised	1976 to 1991	Census	Gini increased from .14 to .18; incomes fell for low-income areas between 1976 and 1981 and rose for rich between 1981 and 1991

Study	Income Concept	Period	Data Source	Main Results
Harding 1995	Social wage income (health, education, housing, childcare), equivalised after housing	1994	Microsimulation, IDS	Gini for cash disposable income of .308, for final income of .289
Johnson et al. 1995	A. Cash disposable income, equivalised B. Social wage income (health, education, housing, childcare, concessions), equivalised	1981–82 to 1993–94	Microsimulation, HES	A. Gini fell from .308 to .296 B. Gini fell from .255 to .226
OECD Atkinson et al. 1995	Cash disposable income, equivalised	1981–82 to 1985–86	IDS	Gini increased from .287 to .295; P90–P10 fell from 4.05 to 4.01
ABS 1996	Final income (social wage plus indirect taxes), not equivalised	1984 to 1993–94	Household Expenditure Survey (HES)	Q5–Q1 increased from 4.5 to 4.7
Borland and Wilkins 1996	Individual gross earnings, not equivalised	1975 to 1994	WEED; Income Distribution Survey (IDS)	Real weekly earnings of males fell at 10th percentile and rose at 90th percentile
ABS 1999	Gini—gross income of income units	1994–95 to 1997–98	IDS	Income distribution of all income units almost unchanged. Gini of .446 not significantly different from that of previous years
Barrett et al. 1999	Consumption inequality	1975 to 1993	HES	Income and consumption inequality both rose, income inequality grew much more than consumption inequality
Lloyd et al. 2000	Mean income by location	1986 to 1996	Census	Income of metropolitan residents increased double the rate of those in major urban centres and regional towns. Between 1991 and 1996, rural towns had the largest increase

Study	Income Concept	Period	Data Source	Main Results
Saunders 2001	Wage and salary, market income, gross income, disposable income and equivalent disposable	1990 to 1999–00	IDS, and Survey of Income and Housing Costs	Wage and salary Gini increased from 0.224 in 1990 to 0.275 in 1999–00. Market Gini rose from 0.543 to 0.572. Gross Gini rose from 0.427 to 0.445. Disposable Gini rose from 0.375 to 0.391. Equivalent disposable Gini rose from 0.330 to 0.346. Australia 6th most unequal country out of 20 in 1995

Note: The Gini coefficient ranges between 0 and 1 with a higher Gini implying greater inequality. The P90/P10 ratio is the income of the unit at the 90th percentile relative to that at the 10th percentile (from the bottom), with a higher ratio implying greater inequality. The Q5/Q1 ratio is the ratio of the income share of the richest 20 per cent to that of the poorest 20 per cent, with a higher ratio implying greater inequality.

Table 16: Results of studies of poverty in Australia

Study	Poverty Concept	Period	Data Source	Main Results
Saunders 1990	A. Henderson, CPI B. Henderson, HDIPC	1982–83 to 1989–90	Microsimulation, IDS	A. Poverty rate fell from 8.9% to 6.5% B. Poverty rate rose from 8.9% to 11.6%
Saunders and Matheson 1991	Henderson, HDIPC	1981–82 to 1989–90	Income Distribution Survey (IDS)	Poverty rate rose from 9.2 to 12.8%
Bradbury and Doyle 1992	A. Henderson, CPI B. Henderson, average survey income	1983–84 to 189–90	Microsimulation, IDS	A. Poverty rate fell from 11.3% to 9.4% B. Poverty rate rose from 11.3% to 11.4%
Harding and Mitchell 1992	50% of median income	1981–82 to 1989–90	IDS	Poverty fell from11.0% to 9.5%
Mitchell and Harding 1993	60% of median income, poverty gap	1981–82 to 1989–90	IDS	Poverty gaps stable or falling slightly
Saunders and Matheson 1993	50% of median income	1981–82 to 1989–90	IDS	Poverty rose from 9.3% to 9.4%
Saunders 1994	Henderson, HDIPC	1981–82 to 1989–90	IDS	Poverty rose from10.7% to 16.7%
Harding 1995	50% of median income, before and after the 'social wage'	1994	Microsimulation, IDS	Poverty substantially reduced by 'social wage' (from 12% to 4% for couples with children)

Study	Poverty Concept	Period	Data Source	Main Results
King and Landt 1996	A. Henderson, all costs B. Henderson, after housing costs	1995	Microsimulation, IDS	A. Poverty at 11.8% B. Poverty at 9.2%
OECD 1996	50% of median income	1981–82 to 1989–90	LIS, IDS	Poverty rose from 14.4% to 16.1%
ABS 1998	A. Henderson B. Half median	1995–96	Income survey —income units	A. 20.5% income unit, 21.5% children B. 10.2% income unit, 12.2% children
King 1998	Henderson, HDIPC	1972–73 to March 1996	Income survey and microsimulation	1. Very poor rose from 12.5% to 16.7% 2. Rather poor rose from 20.6% to 30.4% 3. Extremely poor fell from 3.9% to 3.3%
OECD 1998	50% of median income	1975 to 1994	HES	Poverty fell from 11.9% to 9.5%
Bradbury and Janti 1999 (UNICEF/	A. 50% median income B. US poverty line	1994	HES, LIS	A. Child poverty rate 17.1%—5th highest for industrialised countries (Innocenti) B. Child poverty 20.7%—11th highest
Harding Szukalska 1999	Henderson, half mean, half median	1982 to 1995–96	Income survey and microsimulation	Child poverty (half median) fell from 13.6% in 1982 to 8.0% in 1995–96
Forster and Pellizari 2000	50% and 60% median income	1975 to 1994	HES	Poverty and Gini rose between mid 70s and mid 80s and fell to mid 90s
Harding and Szukalska 2000 (The Smith Family)	Range of measures before and after housing poverty	May 1999	Income survey with limited updating	Total poverty rates between 9.6% and 20.5%, child poverty 9.3% to 26.8%. Half mean poverty fell from 14.6% in 1982 to 13.3% in 1999
Harding Szukalska 2000	Henderson, half mean, half median	1982 to 1997–98	Income survey and microsimulation	Child poverty fell by 1/3 from 1982 (13.1% half median) to 1996–97 (7.3% but then increased in 1997–98 (8.8%)—HPL showed rise over period

7.3 The Henderson and other poverty lines

It should be particularly emphasised that the common perception that poverty in Australia has increased substantially over time reflects the very substantial limitations of the 'Henderson poverty line', which has been used since the late 1960s. When it was originally developed, the Henderson measure was closer to an 'absolute' poverty line, since it was defined as the basic wage plus child endowment for a couple with two children. This arbitrary assumption was justified on the basis that it produced a standard 'so austere as, we believe, to make it unchallengeable. No one can seriously argue that those we define as poor are not so' (Henderson et al. 1970).

The Henderson poverty line was used by the Commission of Inquiry into Poverty in the early 1970s, and by researchers and welfare organisations subsequently. This required some means of updating the Henderson line over time. Initially, the line was adjusted according to movements in average weekly earnings, but since the early 1980s it has been updated in line with Household Disposable Income Per Capita (HDIPC) from the National Accounts.

Since the Poverty Inquiry Survey in 1973, HDIPC has grown in real terms by around 34 per cent, implying that the real level of living of someone just at the poverty line has risen by the same percentage over this period. This means that the statement that the 'poor have got poorer' when based on incomes compared to the Henderson line is not correct. In fact, the absolute living standards of those at the poverty line have risen. The real increases in social security rates noted above should also be remembered in this context.

The Henderson poverty line has the additional complication that household disposable income as measured in income surveys does not coincide with HDIPC as measured in the National Accounts. The Income Distribution Survey (IDS) does not include imputed income from owner-occupied housing or the undistributed earnings of superannuation funds. These are included in the National Accounts, and they have risen more rapidly than other income components. As a result, the Henderson poverty line has actually risen faster than either mean or median survey incomes. It could however, be argued that this is a problem with the Income Surveys, rather than the poverty line. Nevertheless, the finding that there had been an 'ever-rising tide' (Saunders 1991) of poverty over the 1980s inevitably reflects the fact that the Henderson poverty line has increased in relative and not only absolute terms.

Studies that use a poverty line adjusted only in line with prices (Bradbury & Doyle 1992), or that use a poverty line set at 50 per cent of median income, show inconsistent trends in poverty rates over the past 15 years. For example, Harding and Mitchell (1992) found that the proportion of the population below 50 per cent of the median fell slightly from 11.0 to 9.5 per cent of the population between 1981–82 and 1989–90. Saunders and Matheson (1993) used the same methodology and the same data for the same period, but estimated that relative poverty rose imperceptibly from 9.3 to 9.4 per cent. The OECD (1996), using a similar methodology for the same period, estimated that relative poverty rose from 14.4 to 16.1 per cent. A further OECD study (1998) using the Household Expenditure Surveys found that the proportion of households below 50 per cent of the median fell slightly from 11.9 to 9.5 per cent.

A further complication in assessing and interpreting estimates of this sort is that, for most categories of income support recipients, payments are above the equivalent of 50 per cent of median income. Thus, most of the people below 50 per cent of equivalised median income are not in receipt of income support payments or failed to correctly report their income from income support (ABS 1998). Among non-recipients, some are self-employed, but others are possibly either between jobs or in waiting periods for benefits.

In summary, the choice of a definition of poverty reflects a set of value judgments. Some of these judgments unavoidably have arbitrary elements. There appear to be major problems, however, with the Henderson poverty line. This means that the Henderson line does not provide consistent measures of trends over time in the number of people with relative low incomes. As noted above, while vulnerability to poverty among people of workforce age has undoubtedly increased, the level of income support has also increased substantially in real terms.

8 Summing up the Australian model

The economic and social pressures faced by the income support system in the past two decades have been similar to those affecting many other industrialised countries. They include:

- an ageing population (although Australia is behind most developed countries in the rate at which this ageing is occurring)
- increased unemployment, particularly long-term unemployment
- changes in work patterns
- an increasing diversity in family structures and life patterns such as a large rise in the number of lone parents

These pressures have resulted in increased social security coverage of the population, together with demands for increases in the levels of payments.

Reforms over the past decade have focused on several areas:

- increased coverage and extensions to eligibility, for example, for families dependent on low-wage employment and carers of elderly and disabled people
- increased adequacy of payments through, for example, substantial increases in family payments and rent assistance and the regular indexation of virtually all payments to the CPI
- an increased emphasis on the targeting of payments to those in need
- the introduction of 'active society' measures, based on the concept that all people have the right to participate in society to the maximum extent possible
- promotion of 'Mutual Obligations' requiring people in receipt of unemployment payments to give something back to the community in return for the support they receive
- simplification of assistance for families and reform of the tax system providing for reduced marginal tax rates, an increased tax free threshold and the introduction of a GST
- designing payments in such a way as to provide families with more support in balancing workforce participation and child-rearing responsibilities

Following recommendations made to government by the Welfare Reform Reference Group in 2000, the government has undertaken to reform the social security system aiming to improve incentives and opportunities for both social and economic participation by recipients of workforce age. The 2001–02 Commonwealth Budget provided funding for the Australians Working Together (AWT) package, the first step in the Welfare Reform process. It featured the introduction of a new working credit scheme, a training credit system and a numeracy and literacy supplement. There were significant enhancements to service delivery for parents, the mature-aged and Indigenous jobseekers, through the introduction of Personal Advisers in Centrelink, expanded employment, education and training opportunities and funding for an additional 5300 childcare places in outside school hours care (OSHC).

Virtually all social security payments are now indexed to inflation, while pensions are also adjusted in line with changes in MTAWE. These provisions are intended to maintain and, in some cases, improve the real level of payments. Depending on trends in the average earnings relative to prices, this may put upward pressures on expenditure, or at least reduce the scope for downwards adjustments (as occurred in the late 1970s and early 1980s).

The high degree of targeting already in effect in the social security system raises further issues. In the past, spending restraint has been achieved through tighter targeting. Continuation of this approach will either further increase effective marginal tax rates applying to social security customers or, if targeting is pursued through categorisation, increase the complexity of the system.

There are also positive developments that may contribute to maintaining the sustainability of the system. The increase in the receipt and level of private income of social security recipients over the past 15 years will assist in restraining expenditure growth through the operation of the income test. Similarly, in the longer run, the mandatory superannuation scheme should substantially increase the level of retirement savings, and, if translated into higher future private retirement incomes, will put downward pressure on spending.

The crucial issue in considering the financing of future social security spending, however, is the state of the labour market. The cost of financing social security provision through taxes on workers, by definition, is equal to the ratio of recipients to contributors multiplied by the ratio of average benefits to average earnings. Tightening of income tests can reduce the ratio of benefits to earnings, and reductions in the earnings replacement rate can also reduce spending. But, as noted previously, it is arguable that indexation provisions including the MTAWE commitment have limited the extent to which such adjustments can have a substantial impact on future spending requirements.

This suggests that reducing the ratio of recipients to workers is potentially the most powerful lever available to control financing requirements; however, an increase in the number of workers is dependent on employment growth.

In summary, there are concerns that the future ageing of the population in combination with the apparent shrinking of the employed workforce will place extra strains on the Australian welfare state. Australia already has a comparatively very tightly targeted social security system, and a tax system with a nominally highly progressive structure. These design features make it difficult to cut spending further without jeopardising core objectives such as adequacy or further exacerbating undesirable 'poverty traps'. While reform of the tax system has been implemented, tighter targeting, both through income tests and the creation of specific target groups, has resulted in a more complex social security system than was the case two or three decades ago.

A further issue with the targeted approach is that it may undercut public support for the welfare state. Higher-income groups in Australia get less from the welfare state than in nearly any other OECD economy. It has been argued that this may cut into the political popularity of welfare, as middle and higher-income individuals perceive themselves as paying taxes for

benefits they do not receive. More universalist social provisions, such as health and education, therefore receive greater political support than targeted social security payments. In considering arguments of this sort, it is also necessary to consider the impact of the taxes used to finance social security and other forms of social protection.

This paper has argued that the Australian system of social protection has a number of distinctive features that need to be taken into account when considering the impact of the system on incentives and behaviour. The Australian model gives more emphasis to poverty alleviation than most other systems, primarily to be achieved through targeting of benefits. The overall system of income support is relatively low cost (in terms of spending as a percentage of GDP), reflecting the operation of the means tests and the provision of flat-rate rather than earnings-related benefits. While the overall system of income support is more means-tested than those of any other OECD country, the means tests used are actually more relaxed than those typically applying in social assistance schemes in Europe and America. Thus, the effects of means-testing are felt much higher up the income distribution than is typical in social insurance systems elsewhere. This approach appears to be associated with relatively high EMTRs on low-income working families, even though overall levels of taxation are low by the standards of OECD countries. The overall impact on economic incentives or behaviour of these alternative approaches is therefore open to question.

Glossary

ABS	Australian Bureau of Statistics
AFDC	Aid to Families with Dependant Children
AIRC	Australian Industrial Relations Commission
APW	Average Production Worker's Wage
ATO	Australian Taxation Office
AWE	Average Weekly Earnings
AWT	Australians Working Together
BPA	Business Partnership Agreement
CCB	Child Care Benefit
CCR	Childcare Cash Rebate
CES	Commonwealth Employment Service
CPI	Consumer Price Index
CSA	Child Support Agency
CSHA	Commonwealth–State Housing Agreement
DEST	Department of Education, Science and Training
DSS	Department of Social Security
DVA	Department of Veterans' Affairs
EATR	Effective Average Tax Rate
EMTR	Effective Marginal Tax Rate
ETR	Effective Tax Rate
EU	European Union
FA	Family Allowance
FaCS	Department of Family and Community Services
FAO	Family Assistance Office
FHOG	First Home Owner Grant
FTB	Family Tax Benefit
FTB(A)	Family Tax Benefit Part A

FTB(B)	Family Tax Benefit Part B
GDP	Gross Domestic Product
GST	Goods and Services Tax
HDIPC	Household Disposable Income Per Capita
HES	Household Expenditure Survey
IDS	Income Distribution Survey
JET	Jobs, Education and Training Scheme
LDS	Longitudinal Data Set
LIS	Luxembourg Income Study
MIA	Maternity Immunisation Allowance
MTAWE	Male Total Average Weekly Earnings
NGOs	Non-Government Organisations
NSA	Newstart Allowance
NSW	New South Wales
OECD	Organisation for Economic Cooperation and Development
OSHC	Outside School Hours Care
PBS	Pharmaceutical Benefits Scheme
PgA	Parenting Allowance
PPP	Parenting Payment Partnered
PPPs	Purchasing Power Parities
PPS	Parenting Payment Single
RA	Rent Assistance
SGC	Superannuation Guarantee Charge
SPBs	Supporting Parent Beneficiaries
UK	United Kingdom
USA	United States of America
VAT	Value-Added Tax
WEED	Weekly Earnings of Employees Distribution
YA	Youth Allowance

Endnotes

1. Excludes recipients of student assistance.
2. Sourced from ABS. *Census of Population and Housing*, unpublished data, 1996.
3. Sourced from ABS Catalogue No. 4182.0. *Australian Housing Survey—Housing Characteristics, Costs and Conditions*, 1999.
4. While protection from poverty is a primary objective of the Australian system, it is by no means the only goal of the system. The FTB redistributes income across the life cycle, assisting many low and middle-income families with the extra costs associated with having children. Age pensions or similar payments are payable to roughly 80 per cent of the aged population, and for many of this group the pension is functionally equivalent to a form of self-insurance. Unemployment payments are of assistance to otherwise middle income individuals during limited periods without a job.
5. For example, those earning the minimum wage.
6. Sourced from ABS Catalogue No. 5512.0. *Government Finance Statistics*, 1999–2000.
7. There is a relatively small additional allowance for social security recipients living in remote areas, and assistance with private rental costs is provided on a scaled basis above a rent threshold, so that assistance is higher for those in areas with higher housing costs.
8. The Commonwealth's revenue raising power was greatly expanded in 1942 as part of the war effort, with responsibility for income tax removed from the States, rates increased and the base broadened.
9. The threshold after which the 100 per cent withdrawal rate was applied was however very high, at various periods being equal to the basic pension rate.
10. The terms 'pension' and 'benefit' are defined in the Social Security Act 1991. The legal terminology for the classes is not reflected in the names of individual payments: some pensions have 'allowance' or 'payment' in their names, only three benefits are known by the name 'benefit' and one family payment is called a pension.
11. Very few recipients are directly affected by assets tests, which are primarily designed to exclude high wealth individuals with low cash incomes.
12. Disability Support Pension and Age Pension paid to people who are blind are not income or assets tested. Mobility Allowance, Double Orphan Pension and Child Disability Supplement are not income or assets tested.
13. It should be noted that significant proportions of Australians own their own home and this represents a substantial asset for many retirees. In 1999, 38.8 per cent of Australian households owned their own home and 31.3 per cent were purchasing (ABS Catalogue No. 4182.0. *Australian Housing Survey—Housing Characteristics, Costs and Conditions*, 1999). In June 2000, 68.6 per cent of age pensioners (83.9 per cent of partnered age pensioners and 52.3 per cent of single age pensioners) owned their own home.
14. In contrast, total levels of benefit receipt among the working-age population are comparatively modest. In 1998 just under 19 per cent of the working-age population in Australia were receiving benefits, compared to 20 per cent or more in Japan, Sweden, Great Britain, Denmark, Austria, France, Germany and Belgium (OECD, 2001, p.79)
15. Soured from FaCS Annual Report 1999–2000.
16. Maintenance income is now only taken into account in reducing payments for children.
17. Note that where non-taxable family payments are withdrawn the marginal tax rates are additive, since a reduction in a non-taxable payment does not reduce the tax liability on earnings.

18. In calculating social security spending, the figures for other countries have been adjusted to be directly comparable with Australia's. This has involved subtracting spending on civil servants' pensions and workers compensation, as Australian data for these items are not included in the standard OECD statistics.
19. This should be differentiated from the level of taxes paid by transfer recipients on their transfers plus their private incomes.
20. It should be noted that ultimately the total public and private cost of social protection in a country such as Australia may not be very different, since middle and upper income groups may be arranging for earnings replacement through private superannuation or other saving.
21. For a more detailed discussion, see Mitchell et al. (1994) and the comment by Whiteford (1997).
22. They also refer to slightly different years by 2 to 3 years, but this inaccuracy is unlikely to substantially affect the points made here.
23. Men aged 65 and over, women aged 60 and over. For clarity, the phased increase in women's age pension age has not been taken into account in this discussion.
24. Sourced from ABS Catalogue 3201.0. *Population by Age and Sex, Australian States and Territories*, various years.
25. Until 1994, partners of allowees were not paid individually.
26. It is very important to note that current statistics may exaggerate the duration of receipt of unemployment payments. For those with durations under 12 months, absences from benefit of up to six weeks are not treated as affecting durations; for those with durations of over 12 months, absences of up to 13 weeks are ignored.
27. These are calculated by comparing numbers of grants and the distribution of durations. They should be thought of as approximate estimates.
28. Note that this does not mean that women have 'taken' men's jobs. Male employment to population ratios fell most substantially in the late 1970s, when female employment remained stable. From the mid-1980s onwards, male and female employment to population ratios followed nearly identical cyclical trends, although female employment grew faster than male employment. The changing composition of the employed labour force is likely to be associated with the relative decline in manufacturing employment and the growth in service sector employment.
29. Note that all data quoted on labour market outcomes come from OECD sources, usually the annual *Employment Outlook* series, the historical labour market series, or the individual country studies. The charts are also derived from these sources.
30. Between 1979 and 1990, among the 20 OECD countries for which these data were available, Australia ranked fourth in terms of private sector job creation per person.
31. After Luxembourg (35.6 per cent), Australia has the second highest share of foreign-born in the population (21.1 per cent) followed by Switzerland (19.0 per cent) and Canada (17.4 per cent). Most other countries had immigrant shares of between 3 and 10 per cent of the population. For most of the 1980s, Australia had net migration rates more than twice as high as the next OECD country, excepting Germany, which had extremely high net migration in 1989. Ireland and New Zealand had quite strong outward migration over the 1980s.
32. This raises the issue of whether Australian employment growth would have been as substantial in the absence of high levels of immigration and increased female labour force participation.
33. It is notable that in 1973 Australia had one of the highest employment to population ratios for men of any OECD country. The sharp decline over the following decade moved Australia's ratio to about the OECD average.

34. When unemployment rates are added to rates of non-participation in the labour force, a broadly similar picture emerges. A 1992 OECD study compared non-employment rates in the 1980s (OECD, 1992, p.47). For males aged 15 and over the level of non-employment in Australia was around 22 per cent compared to an OECD average of just under 24 per cent, with the highest level of non-employment being in Ireland, Italy and Spain at around 30 per cent and the lowest level being in Sweden at 16 per cent (with Japan and New Zealand also being under 20 per cent). This over-states non-employment in Australia, as the ratio included persons aged 65 and over in this country, but not in many others.
35. 'Married men' includes those in de facto relationships, as well as those with and without children.
36. The figures for the United Kingdom are not actually given in the OECD publication, but come from 1993–94 Households Below Average Income statistics (UK 1994).
37. It should be emphasised that, for married women not to be counted as unemployed in the labour force, surveys would require the additional step that they give up actively seeking work.
38. Saunders and Fritzell (1995) find that for people of workforce age the difference in inequality between Australia and Sweden is largely explained by the much greater level of self-employment in Australia, and the more significant role of transfers in Sweden.
39. The United Kingdom figures used by the OECD come from the New Earnings Survey, which excludes low paid workers whose incomes are below the lower earnings limit for National Insurance contributions. A more detailed analysis of wage trends in the United Kingdom using Family Expenditure Survey data (Gosling et al. 1994) finds that the real earnings at the 10th percentile of male workers did not increase at all between 1978 and 1993.
40. There remain major problems of comparability. The Italian data are actually net of tax. The Swedish data refer to workers aged 23 years and over. The Australian data exclude managerial workers. The Danish data exclude those with wage rates less than 80 per cent of the minimum wage. The data for the Netherlands refer to those aged 23 to 64 years, and for Norway those aged 19 to 55 years.
41. Increasing lone parenthood has meant that many women and children who were previously recipients of transfers within families now receive transfers through the social security system. To the extent that transfers within families were inadequate (and contributed to family breakdown), this process is one where poverty has always existed but is now made more visible.

References

Aaron, H 1992, 'The economics and politics of pensions: evaluating the choices', in *Private Pensions and Public Policy*, OECD, Paris.

Adema, W 1999, 'Net Social Expenditure', *Labour Market and Social Policy Occasional Paper No. 39*, OECD, Paris.

Atkinson, AB et al. 1995, *Income Distribution in OECD Countries*, OECD, Paris.

Australian Bureau of Statistics (ABS) 1987, 1992, 1996, 'The Effects of Government Benefits and Taxes and Household Income', *Catalogue No. 6537.0*, ABS, Canberra.

—— 1996, *A Conceptual Framework for Statistics on Household Consumption, Income and Wealth*, ABS, Canberra.

—— 1998, 'Australian Social Trends', Catalogue No. 4102.0, ABS, Canberra, pp. 125–129,

—— 1998, 'Poverty: Different Assumptions, Different Profiles' in *Australian Social Trends*, Catalogue No. 4102.0, ABS, Canberra.

—— 1998, 1999, 2001, 'Income Distribution, 1996–97', *Catalogue No. 6523.0*, ABS, Canberra.

—— 2001, 'Average Weekly Earnings, May 2001', *Catalogue No. 6302.0*, ABS, Canberra.

—— 2001, 'Government Finance Statistics, 1999–00,' *Catalogue No. 5512.0*, ABS, Canberra.

—— various years, 'Australian National Accounts: National Income, Expenditure and Product', *Catalogue No. 5206.0*, ABS, Canberra.

—— various years, 'Government Finance Statistics, Australia', *Catalogue No. 5512.0*, ABS, Canberra.

—— various years. 'Population by Age and Sex, Australian States and Territories', *Catalogue No. 3201.0*, ABS, Canberra.

—— various years. *Year Book Australia*, ABS, Canberra.

Barr, N 1990, 'Economic Theory and the Welfare State: A Survey and Reinterpretation', *Welfare State Discussion Paper 54*, STICERD, London School of Economics, London.

Barrett, G et al. 1999, 'Demographic Trends and Consumption Inequality in Australia 1975–1993', *Discussion Paper No. 403*, Centre for Economic Policy Research, ANU, Canberra.

Borland, J & Wilkins, R 1996, 'Earnings inequality in Australia', *Economic Record*, 72(216), pp. 7–23.

Bradbury, B 1993, 'Male Wage Inequality Before and After Tax: A Six Country Comparison', *Discussion Paper No. 42*, Social Policy Research Centre, University of New South Wales.

Bradbury, B 1995, 'Added, subtracted or just different: why do the wives of unemployed men have such low employment rates?', *Australian Bulletin of Labour*, 21(1), March.

Bradbury, B & Doyle, J 1992, 'Family incomes and economic growth', *Reports and Proceedings*, No. 102, Social Policy Research Centre, University of New South Wales.

Bradbury, B & Janti, M 1999, 'Child Poverty across Industrialised Nations', *Innocenti Occasional Papers*, Economic and Social Policy Series, No. 71.

Creighton, B & Stewart, A 1990, *Labour Law: an Introduction*, Federation Press, Sydney.

Department of Social Security (various years), *Annual Report*, AGPS, Canberra.

—— various years, *Customers: A Statistical Overview*, Canberra.

—— various years, *Ten Yearly Statistical Summary*, AGPS, Canberra.

Eardley, T 1997, 'Does Australia have a problem of working poverty?' in Saunders P & Eardley T (eds), *States, Markets, Communities: Remapping the Boundaries*, SPRC Reports and Proceedings No 136, Social Policy Research Centre, University of New South Wales.

Eardley, T 1998, 'Working But Poor? Low Pay and Poverty in Australia', *Discussion Paper No. 91*, Social Policy Research Centre, University of New South Wales.

Eardley, T et al. 1996, *Social assistance in OECD countries*, Volumes 1 and 2, Research Reports No. 46 and 47, UK Department of Social Security, HMSO, London and OECD, Paris.

Fisher, E 1987, 'Occupation: Unemployed; Trends in Unemployment in Australia 1970–1986', *Social Security Review Background Paper No. 20*, Canberra.

Forster, MF & Pellizzari, M 2000, 'Trends and Driving Factors in Income Distribution and Poverty in the OECD Area', *Labour Market and Social Policy Occasional Papers No. 42*, OECD, Paris.

Foster, C 1988, 'Towards a National Retirement Incomes Policy', *Social Security Review Issues Paper No. 6*, AGPS, Canberra.

Gosling, A et al. 1994, 'What happened to wages?', *IFS Commentary*, 43, Institute of Fiscal Studies, London.

Gottschalk, P 1993, 'Changes in family income in seven industrialised countries', *AEA Papers and Proceedings*, 83(2), pp. 136–142.

Green, G et al. 1992, 'International comparisons of earnings inequality for men in the 1980s', *Review of Income and Wealth*, Series 38, No. 1, March.

Gregory, R 1993, 'Aspects of Australian and US living standards: The Disappointing Decades 1970 to 1990', *Economic Record*, March, pp. 61–76.

Gregory, R & Hunter B 1995, 'The Macro Economy and the Growth Of Ghettos and Urban Poverty in Australia', *Discussion Paper No. 325*, Centre for Economic Policy Research, Australian National University.

Harding, A 1993, 'Lifetime vs annual tax-transfer incidence: how much less progressive?', *Economic Record*, 69, pp. 179–192.

Harding, A 1994, 'Income Inequality in Australia from 1982 to 1993', *Discussion Paper No. 4*, NATSEM, Canberra.

Harding, A 1995, 'The distributional impact of social wage infrastructure in 1994', *Paper presented to the Public Sector Research Centre Seminar on Infrastructure: Meeting Australia's Economic and Social Needs*, Sydney.

Harding, A & Mitchell, D 1992, 'The efficiency and effectiveness of the tax-transfer system in the 1980s', *Australian Tax Forum*, 9(3), pp. 277–304.

Harding, A & Szukalska, A 1999, 'Trends in Child Poverty 1982 to 1995–96', *Paper presented to the Australian Association for Social Research Annual Conference*, February 1999.

Harding, A & Szukalska, A 2000, 'Social Policy Matters: The Changing Face of Child Poverty in Australia 1982 to 1997–98', *Paper presented to the 7th Australian Institute of Family Studies Conference*, July 2000.

Harding, A & Szukalska, A 2000, *Financial Disadvantage in Australia 1999—the Unlucky Australians?*, The Smith Family, November 2000.

Hawke, A & Wooden, M 1998, 'The changing face of Australian industrial relations: a survey', *Economic Record*, 74(224), pp. 74–88.

Henderson, R 1975, *Poverty in Australia—First Main Report*, AGPS, Canberra.

Henderson, R et al. 1970, *People in Poverty: A Melbourne Survey*, Institute for Applied Economic and Social Research, Cheshire, Melbourne.

Johnson, D et al. 1995, *Trends in the Distribution of Cash Income and Non-Cash Benefits*, AGPS, Canberra.

Khan, Q 1998, *Social protection in a changing economic and social environment—the Australian experience and its lessons for world bank group client countries*, Human Development Sector, World Bank, mimeo.

King, A 1998, 'Income poverty since the early 1970s', in Fincher R & Nieuwenhuysen J (eds), *Australian Poverty: Then and Now*, Melbourne University Press, Melbourne.

King, A & Landt, J 1996, 'How do we measure poverty and what do poverty estimates mean?' *Paper presented to the National conference of the Australian Institute of Welfare and Community Workers*, September, Perth.

Lloyd, R et al. 2000, 'Regional Divide? A Study of Incomes in Regional Australia', *Discussion Paper 51*, NATSEM, Canberra.

Lydall, H 1968, *The Structure of Earnings*, Clarendon Press, Oxford.

Mitchell, D & Harding, A 1993, 'Changes in Poverty among Families During the 1980s: Poverty Gap versus head Count Approaches', *Discussion Paper No. 2*, NATSEM, Canberra.

Mitchell, D et al. 1994, 'Targeting welfare', *Economic Record*, 70(10), pp. 315–340.

Moore, J & Whiteford, P 1986, 'Trends in the Disposable Incomes of Australian Families 1964–65 to 1985–86', *Social Security Review*, Background Paper No. 11, Canberra.

Neild, JC 1898, *Report on Old Age Pensions, Charitable Relief and State Insurance in England and on the Continent of Europe*, Government Printer, Sydney.

OECD various years, *Employment Outlook*, July, OECD, Paris.

—— 1993, *Taxing Consumption*, OECD, Paris.

OECD 1996, 'Social Expenditure Statistics of OECD Member Countries', *Labour Market and Social Policy Occasional Papers No. 17*, OECD, Paris.

—— 1998, 'Income Distribution and Poverty in Selected OECD Countries', *Economics Department Working Paper No. 189*, OECD, Paris.

—— 2000a, *A Caring World—The New Social Policy Agenda*, OECD, Paris.

—— 2000b, *OECD in Figures: Statistics on the member countries*, OECD, Paris.

—— 2001, *Society at a Glance: OECD Social Indicators*, OECD, Paris.

Pech, J 1991, 'Married women and the unemployment benefit system', *Social Security Journal*, August, pp. 26–34.

Raskall, P & Urquhart, R 1994, 'Inequality, Living Standards and the Social Wage During the 1980s', *Study of Social and Economic Inequalities*, Monograph No. 3, University of New South Wales, Sydney.

Raymond, J 1987, 'Bringing Up Children Alone: Policies for Sole Parents', *Social Security Review Issues Paper No. 3*, AGPS, Canberra.

Saunders, P 1993, 'Economic Adjustment and Distributional Change: Income Inequality and Poverty in Australia in the Eighties', *Discussion Paper No. 47*, Social Policy Research Centre, University of New South Wales.

Saunders, P 1994, *Welfare and Inequality*, Cambridge University Press, Melbourne.

Saunders, P. 2001, 'Household Income and its Distribution', *Australian Economic Indicators*, ABS Catalogue 1350.0, June 2001, ABS, Canberra.

Saunders, P & Fritzell, J 1995, 'Wage and Income Inequality in Two Welfare States, Australia and Sweden', *Discussion Paper No. 60*, Social Policy Research Centre, University of New South Wales.

Saunders, P & Matheson, G 1991, 'An Ever-Rising Tide? Poverty in Australia in the 1980s', *Discussion Paper No. 30*, Social Policy Research Centre, University of New South Wales.

Saunders, P & Matheson, G 1993, 'The efficiency and effectiveness of the tax-transfer system in the 1980s: a comment', *Australian Tax Forum*, 10(3), pp. 403–16.

Saunders, P & Whiteford, P 1989, 'Measuring Poverty: A Review of the Issues', *Discussion Paper 89/11*, Economic Planning Advisory Council, Canberra.

Scherer, P 1978, 'The Perverse additional worker effect', *Australian Economic Papers*, 17, December, pp. 261–275.

Smeeding, T & Coder, J 1993, 'Income Inequality in Rich Countries During the 1980s', *LIS Working Paper No. 88*, CEPS/INSTEAD, Luxembourg

United Kingdom, Department of Social Security 1994, *Households Below Average Income: A Statistical Analysis 1979–1991/92*, HMSO, London.

Whiteford, P 1994, 'Income distribution and social policy under a reformist government: the Australian experience', *Policy and Politics*, 22(4), October, pp. 239–255.

Whiteford P 1997, 'Targeting welfare: a comment', *The Economic Record*, 73(220), March, pp. 45–50.