Fertility in Australia: can we afford to keep the Government out of the bedroom?

What future for welfare?

Projections of the number of Income Support recipients: 1999–2051

The Household, Income and Labour Dynamics in Australia (HILDA) Survey: an introduction

Book reviews
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Australian Social Policy  2001–02
Fertility in Australia: can we afford to keep the Government out of the bedroom?

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1. Introduction

Immigration and fertility play vital roles in determining the population futures open to us as a nation. As key influences on the size and composition on Australia’s population and labour force, these factors play a fundamental role in influencing our competitiveness in a globalised economy, and hence the standard of living we enjoy.

How best to enhance the capabilities of our future population has been the subject of considerable debate. Immigration policies have undergone a marked shift in response. An increased emphasis is now placed on attracting highly skilled young people who can offer marketable skills and experience, with a concomitant decrease in the numbers entering through family reunion categories, who are not required to demonstrate these characteristics.

However, similar changes in our thinking around the policies that affect fertility – the other side of the population coin – have not yet eventuated. Discussions of the issue thus far have tended to be limited to a general lament on fertility decline, with little government policy action evident.

This paper will assert that there is scope for a similar reshaping of policy on fertility, and that a more proactive approach could enhance the quantity and quality of our future population. The paper will firstly provide a general overview of current trends and some discussion of their significance, as well as outlining what the results of failing to take action might be. It will then make some comment on the general directions suggested. This paper’s conclusions are limited to the area of ‘family policy’, in the broadest sense of the term. Specifically, the areas of family payments and income support policies, child care benefits and subsidies, ‘family-friendly’ workplace practices and the range of assistance provided to families in the form of services, such as parenting and relationship assistance, will be discussed. This is not intended to imply that these necessarily have the only or even the major influence on the fertility decisions that people make, but they are part of the diverse range of influences that affect overall fertility rates.
2. Fertility in Australia

Fertility is generally discussed in terms of the total fertility rate (TFR), which represents the number of children a woman would bear across her lifetime if she were to experience all of the age-specific birth rates occurring in that year (ABS 2001a). The replacement TFR is around 2.1. Fertility fell below this level in 1976 and hovered around 1.8 to 1.9 throughout the 1980s and 1990s, before declining to 1.79 in 1996 and finally to 1.75 in 2000 (ABS 2001a). While this is the lowest level seen in Australia so far, comparatively our fertility rate still ranks in the middle belt of the OECD countries. Specifically, it is higher than Canada (1.5), Japan (1.4), and many European countries (for example, Italy, at 1.2), but lower than the United States (2.0) and New Zealand (1.9) (ABS 2000a).

Fertility is falling because women are having fewer children overall and more women are having no children. In particular, the likelihood that a woman will have three or more children is declining rapidly (ABS 1999). The average age at which women have their first child is also rising. In 1999, our median age at first birth for all mothers, at 29.7, was higher than at any other time in the twentieth century (ABS 2000a). In that year, for the first time, the number of babies born to women aged 30–34 was greater than to those aged 25–29 (ABS 2000a). This is significant, as age at first birth is correlated with overall completed family size, with older first-time mothers being more likely to have smaller completed families (Barnes 2001).

In 1999, there were just under 250 000 births and about half this number of deaths. As a result, our population is still growing from natural increase. This will continue for some decades because there will remain large numbers of women of reproductive age having children. However, as later cohorts are smaller and they are likely to have fewer children, natural increase is expected to begin to fall some time in the 2030s (ABS 2000a). After this, all growth will be dependent on migration.

3. Understanding fertility decisions

This paper will use two equations to partly explain the factors contributing to fertility decline. These will form the basis from which policy remedies will be suggested.

The first of these was proposed by the economist Gary Becker, who was among the first academics to argue that more than mere ‘biological instinct’ might be behind fertility decisions. His ‘Economic theory of fertility’ (in Becker & Lewis 1973) specifically argued that fertility decisions are made by individuals on the grounds of rational choice. This theory is represented by the following equation:

\[ m = m (n, q, s) \]  

(1)
where \( m \) represents a measure of utility, \( n \) represents a number of children, \( q \) represents the amount of resources invested in those children, and \( s \) represents other goods and services. The implication of equation (1) is that individuals, given limited resources, rationally choose the particular combination of quantity of children, ‘quality’ of those children, and other goods and services that maximises their utility as rational individuals.

The second equation represents the situation that must exist in order for a couple to choose to have children:

\[
V_C + dV_C > V_A + dV_A \quad (2)
\]

where \( V \) represents the financial value attached to an activity, \( d \) represents the non-pecuniary aspect of that value, \( C \) represents the amount attributable to having a child, and \( A \) represents the value attached to alternative activities.¹ This indicates that in order to have a child, the total value placed on a child by a couple must outweigh the value of both the financial and non-financial sacrifices that must be made in order to do so.

Between them, these two equations can assist understanding of some factors that affect the fertility decisions of individuals. This is an important step in proposing policies that may influence fertility decisions. The most significant factors are detailed below.

However, it is noted that the overall contribution of each of these factors to total fertility is not known. Their relative importance will also not be the same for all individuals. This means that the exact nature and magnitude of any behavioural response to a given policy change is difficult to predict.

**Direct costs**

Clearly, having children involves direct costs, including clothes, food, health costs and so on. Given that households have limited resources, equation (1) leads us to understand that the decision to have children explicitly involves trading-off other goods and services. Not only is the size of these costs of children important for decisions about having children, but so also are the relative costs of other goods and services. For example, higher interest rates, leading to higher mortgage repayments, will decrease the disposable income out of which the costs of children can be met, making children relatively less affordable. Higher Education Contribution Scheme (HECS) repayments have the same effect for those with tertiary education debts, by reducing a household’s take-home pay.

**Opportunity costs**

In addition to the direct costs of children, child-rearing involves substantial opportunity costs. The major opportunity cost is that of lost income due to the time spent out of the workforce to have, and care for, children. Additional opportunity costs are associated with this detachment from the workforce, such as loss of personal autonomy, loss of social networks and the cost of promotional
opportunities foregone. With regard to equation (2), the financial and ‘psychological’ (that is, non-pecuniary) aspects associated with time spent out of the workforce are represented by $V_A$ and $dV_A$ respectively. Because women perform a disproportionate share of child-rearing, they bear a disproportionate share of these costs.

The opportunity costs of children are not equal for all women. Chapman et al (1999) attempted to quantify the average value of the wages foregone due to child-bearing and rearing (represented by $V_A$), by the educational level of the mother. This analysis showed that the opportunity cost of children rises with the education of the mother, because of the higher ‘price of time’ for better-educated women, in terms of the wages they could command in the labour market. For example, a woman who has not completed high school foregoes an average of $167,000 through having her first child, and $43,000 for each subsequent child. For a degree-educated women, however, the average value rises to $239,000 for one child and $85,000 per subsequent child.

In so far as better-educated women may also be able to secure intellectually challenging or satisfying employment, and derive satisfaction from career advancement or from using the skills and knowledge that they have built up through their education and training, their psychological opportunity costs of not participating in the workforce may also be higher. The value of this – represented in equation (2) as $dV_A$ – has not yet been formally quantified, however.

Given the positive relationship between a woman’s educational level and the ‘cost’ of children to her, it is not surprising to find a strongly inverse correlation between educational attainment and fertility. ABS statistics (2001a) indicate that, irrespective of the age of the woman, the higher her educational attainment, the lower her level of fertility. In 1996, women under 30 years of age with no qualifications had three times the Mean Children Ever Born (MCEB) of women with a degree or higher. Almost one-third of women aged 30 years and over with a degree or higher had not had any children, compared to 12 per cent of women with no qualifications (ABS 2001a).

The fertility disincentive posed by the higher opportunity cost of children to educated women may be reinforced by the apparent tendency for female students to postpone having children while undertaking study (ABS 2001a). This may also be contributing to reduced lifetime fertility as it is known that later commencement of child-bearing leads to smaller completed family size (Barnes op. cit.). Because of these effects, as successive cohorts of highly educated women move through the life cycle, we can expect birth rates to decline further (Dowrick 1998).
Attitudes
Fertility is also affected by the attitudes people hold towards having children. Increased opportunities for education and labour force participation, and the financial independence these bring, have meant that women can choose to pursue personal satisfaction through career development or other means, rather than through having children. In terms of equation (2), this may indicate that the social value attributed to \( dV_c \) is falling, relative to that of \( V_A \) and \( dV_A \) – that is, that things other than having children are coming to be viewed as more important and desirable than having children.

As the choice to delay child-bearing or remain childless becomes more prevalent, it also becomes more socially acceptable. These two factors are likely to be self-reinforcing.

4. The problem of declining fertility

Other things being equal, falling fertility will reduce the size of our workforce. The working-age population currently grows by 180,000 each year. In the decade starting from around 2020 the working-age population will only grow by 140,000 over the whole decade (Bacon 1999 in Barnes 2001). By about 2030, it could start to decline. Empirical information from a range of studies suggests that population size does matter to economic output, with a 1 per cent growth in population, for example, predicted to add about $600 billion to Australia’s GDP by mid-century (EPAC 1994). A declining number of working-age people thus raises concerns about economic growth and prosperity generally.

However, there is also evidence to suggest that population size may contribute to economic growth in other ways. Specifically, evidence from the European manufacturing industry indicates that if you quadruple the size of an industry, you double output per worker and output per unit of capital employed (Simon 1989 in Withers 2000). Increased city size and population agglomeration also appear to lead to increased workforce productivity in the cities where this occurs (Quigley 1998 in Withers 2000). As innovation, technological change and productivity are also important drivers of economic growth, this indicates that population growth might make a contribution to overall economic output over and above that which can be attributed to the actual population growth alone.

Falling fertility will also accelerate population ageing which, other things being equal, will increase the dependency ratio. If the elderly dependency ratio is defined as the ratio of people aged 65 and over to those aged 15–64, then this ratio is currently approximately 20 per cent. This is expected to rise to about 40 per cent by the middle of this century (Bacon 1999 in Barnes 2001). While this effect will be mitigated somewhat by a concomitant decline in the number of child dependants, it will not be negated by it.
Much social support has traditionally been provided from within the family. The decline in fertility, and the resulting growth in the number of people who have no immediate family or very small families, are expected to increase demand for a range of support services, whether publicly funded or privately provided. This effect will be felt most widely in around 2025–30 as those born in the 1960s and 1970s, who had fewer children, reach old age (Barnes 2001).

As a result of these trends, it has been estimated that, assuming that present patterns continue, almost 10 per cent extra of our GDP – that is, not a 10 per cent increase in outlays, but an additional 10 per cent of total GDP – will have to be diverted within four decades to support aged programs (Withers 2000). This raises concerns with the longer-term sustainability of the age pension and health and aged care systems, as well as our capacity to sustain our present social welfare system (McDonald 1998 cited in Barnes 2001). Conversely, a 1 per cent population increase would halve this cost, saving some $25 billion in outlays (Withers 2000).

Thus, declining fertility simultaneously increases the demand for resources (whether public or private) to support an ageing population, while decreasing the workforce available to generate the necessary economic activity to fund this, as well as maintain overall economic growth. This may ultimately affect our ability to maintain the standard of living we currently enjoy. Similar problems are already facing countries where population is ageing more quickly, such as Germany, Italy and Japan.

Long timeframes are involved in altering these trends. As Barnes (2001) notes, almost all the workforce of 2020 has already been born, and the numbers entering the workforce during the remainder of that decade and beyond will be influenced by the policies that are in place now and over the next decade. Rather than waiting until our situation is as critical as that in countries with even lower fertility rates, common sense suggests that the time to consider these issues in Australia is now.

5. Responses to falling fertility

Migration can alleviate the problems posed by declining fertility. Specifically, migration can have significant benefits on the number and proportion of people in the workforce. It also adds directly to the number of women of child-bearing age (ABS 2000c). However, the downside to this is that migration also adds to the over-65 population, as migrants also age (Barnes 2001). Our immigrant intake is already relatively young, with a median age of 28.3 in 1998–99, and only 8 per cent aged 50 years or over (ABS 2000b). This means it is unlikely that the composition of our existing immigration intake could be shifted to reduce the effect of migrant ageing.

There will also be increasing competition for skilled migrants as the growth in other countries’ workforces also declines, meaning that we may have less choice in the type of people who wish to migrate to Australia in the future (Barnes 2001).
As a result, it is unlikely that immigration alone will be able to solve the problems currently posed in Australia by declining fertility.

Instead, reducing the consequences of declining fertility will require us to take action to increase the labour supply. This can be achieved through either increasing the ‘quantity’ of labour, or through improving its ‘quality’, that is, the productivity of the workers we have. In deciding where to expend the greatest effort, it is worth noting the relative contributions of each of these to overall growth. Specifically, while population growth has perhaps made the single greatest contribution to post-war economic growth in Australia overall, population productivity is likely to be increasingly important in future years (Parham 1999). Overall, analysis indicates that Australia’s 30 per cent prosperity gap with the United States is made up of 5 per cent lower employment per capita and 25 per cent lower productivity (McKinsey & Co 1995).

So, while a higher rate of economic growth could be achieved if fertility were not declining at its present rate, the productivity of the workforce will be an equally important factor in the overall level of economic growth achieved in the future, indicating that some attention could also be paid to this issue. This conclusion may also be somewhat pragmatic, as while there is some evidence that some countries have been able to arrest fertility decline, no country has been able to boost it once it has started to fall (UNPF 1999 in Barnes 2001). For this reason, sustaining our standard of living will require efforts to both halt fertility decline and increase the productivity of the population.

Productivity is primarily determined by the level of ‘human capital’ of each worker (Borland 1997). Therefore, increasing our productivity will require us to increase the investment that is made in the human capital of the population. The term ‘human capital’ can be defined as the knowledge, skills, and experience of people that make them economically productive (World Bank n.d). It is generally thought of as relating to higher education, but it also includes more basic factors, such as nutrition and overall health, socialisation and basic education. The level of investment in these areas made at an early age will influence the degree to which the population can benefit from other forms of human capital investment, such as that in tertiary education, at a later stage.

Obviously, many of the factors that determine levels of per capita human capital investment are primarily under the control of private individuals within families. However, the importance of government policies in fostering human capital formation is also generally acknowledged, and underpins policy in a variety of relevant areas, particularly higher education. It is argued here that the Australian Government could also better help families make greater investment in their children at an earlier stage through a re-thinking of the way in which a number of family policies are oriented.
6. The consequences of not responding to fertility decline

In recent times, the argument that having children is a private choice that the childless should not be expected to finance has been given some exposure. However, this can be disputed on the grounds that both having and investing in children involves positive ‘spill-overs’, in that the total benefit to society exceeds the sum of the private benefits that accrue to individuals. Where something has such a ‘public good’ characteristic, too little of it is likely to be produced in society without some form of intervention or inducement. In this situation, what it means is that fertility and human capital investment are likely to be below socially optimal levels if decisions are left entirely to individuals. This suggests a case for some form of intervention.

There are further elements to changing fertility patterns that support this argument. One model produced by Becker, Murphy & Tamura (1990), for example, produces a changing price of child quality relative to family size, as it is less costly for an educated parent to transfer their skills to their children than it is for an uneducated parent. This means that highly educated, high-income families will tend to be smaller and have higher levels of human capital investment per child, while parents with lower education levels and incomes will tend to have larger families and make correspondingly lower levels of investment in each child. With reference to equation (1), it can be seen that $n$ is an inferior good, that is one which increases as income decreases. $q$, however, represents a superior good – its consumption increases as income increases.

Certainly, at least part of the model’s prediction is borne out in practice. ABS statistics indicate that, generally, the higher the income of a woman, the lower her fertility. This pattern is particularly clear for women aged 30 years and over (ABS 2001a). More than one-third of women over 30 who earned more than $52 000 a year had not had any children, compared to less than half of this number (15 per cent) for all women in this age group. These high-income earners had an average of 1.6 children compared to 2.3 for all women in the 20 and over age group (ABS 2001a).

This is significant from an economic point of view, as future economic growth will rely heavily on population productivity, which is determined to a large extent by per capita human capital investment. If it is reasonable to expect that high income families will generally be able to offer a greater amount and variety of material opportunities to their children, who will have an accordingly higher level of human capital, then the quantity of people in the population who are born into high-income families, and who are therefore likely to have higher human capital investment, will decline. Conversely, the quantity of children born into low-income families, who are likely to have relatively lower levels of human capital investment, will increase. Overall, the end result may be declining population productivity. This may indicate that there is a difference between the present distribution of fertility across society and the socially optimal distribution.
This is also significant from a social point of view, as differences in human capital are the best predictors of differences in earnings across individuals. This means that if the present approach to population is maintained, the human capital of the population – and the opportunities that normally flow from this – will tend to become concentrated rather than dispersed, leading to greater socioeconomic polarisation and inequity. This is not only socially undesirable in and of itself, but there is some evidence that inequality in income distribution tends to reduce economic growth through producing social divisiveness (Dowrick 1995).

These points indicate that government intervention in the determination of population quantity and quality could improve on the outcomes that are likely to be achieved without intervention. As such, government intervention in population policy is warranted, in policy terms.

This policy intervention is clearly evident in immigration. The annual overseas migration intake has fluctuated substantially over the past two decades, with deliberate changes in government immigration policy playing a large part in dictating the size and direction of these shifts (ABS 2001b). Conversely, the focus of family policies has traditionally been on helping people who have children to bring up these children, whether through targeted financial assistance, or in the form of education, health or child care services. It is not the stated intent of these policies to influence the decisions that people make around fertility. Rather, they are generally taken to primarily assist parents once the decision to have children has been made.

In reality, it is improbable to think that fertility rates, and the resources that parents invest in their children, are not influenced by government policies. Types and amounts of family payments, child care subsidies and income support arrangements are likely to exert some direct influence. However, policies in a range of areas, such as industrial relations, higher education and taxation, will also have an effect, through influencing both the opportunity and relative costs of children. As recent research indicates that there is a real possibility that many Australian women who would like to have had children are ultimately reaching the end of their reproductive lives without having done so, it may be that current policies are having a negative impact, at least on some groups (Evans & Kelly 1999 in Barnes 2001).

This suggests that current policies may be feeding population decline and concentration of human capital when they should be aiming for the opposite – to internalise both quality and quantity enhancement, and ‘capture’ these as endogenous features of the process. Such an achievement would be most likely to achieve a measure of long-term sustainability. While these policies are likely to relate to a number of portfolio areas, specific suggestions for a number of programs within the family policy area are made below.
7. Suggested policy responses to declining fertility

The information detailed above suggests two broad prescriptions for the type of policy approach that might optimise both population quality and quantity:

1. The **costs** of having children – particularly for highly educated, high-income women, who are most likely to delay or curtail child-bearing – should be reduced. It is likely that the opportunity costs of children for highly educated women may be as important as – if not more important than – their direct costs.

2. Families with children should be encouraged to increase their overall **investment** in each child. Some families – particularly those with better-educated and higher-income parents – already tend to do make substantial investments. Ideally, however, all Australian children should benefit from the resources available to assist them.

These key issues suggest a number of possible responses in the area of family policy. Some of these are detailed below.

**Family payments**

Family payments are the most obvious form of direct financial assistance provided to families by the Government. The main family payments are Family Tax Benefit (FTB) Parts A and B. FTB Part A is means-tested on family income and paid at a per-child rate to the primary carers of children. FTB Part B is means-tested on the income of the secondary earner only and paid at a per-family rate. The goal of these payments is to help lower and middle-income families with the cost of raising their children.

Raising family payments has been seized on as one measure to increase fertility (Swan 1999). However, there may be a number of problems with such an approach. Evidence from Europe indicates that the main impact of cash incentives is to alter the timing of births, rather than increase their number (Hugo 2000 in Barnes 2001). In addition, North American research has concluded that a system, like ours, which increases welfare payments as the number of children in the household increases, lowers the cost of quantity of children (Becker et al 1990). Raising the level at which a per-child payment is made would exacerbate this.

Most significantly, raising the level of an income-tested payment has no impact on those women having the least children, being those with relatively high incomes, as they are income-tested out of payment or receive only a lower ‘base’ rate. It is likely that the value of this payment is too low to act, in isolation, as an effective inducement for a high-income family to have children. It may theoretically be feasible to lift the value of the payment to a point that would push birth rates up – one study in Canada suggested this possibility (Barnes 2001). However, substantially increasing transfer payments to high-income earners would not only
require a considerable budgetary outlay, but conflict with one of the principles of the Australian system, which is to direct assistance on the basis of need. This conflict gives rise to equity concerns that would require careful consideration.

As such, across-the-board increases in family payments are unlikely to be effective in preventing declining fertility and may, in some ways, work against the goal of broadening the levels of investment in human capital across society. Certainly, in order to act as an effective incentive for those high-income women currently having the fewest children, substantial increases to family payments would be necessary. This move would not only be expensive, but would give rise to equity considerations not easily resolved.

**Child care**

Child care subsidies are another major component of the government’s family assistance program. These are also paid on a means-tested basis, and available both for work-related and non-work-related care. As child care appears to strongly influence workforce participation rates for women with children, its cost, availability and quality are likely to be issues that couples consider in deciding whether to have children (Sorrentino 1990).

Access to child care subsidies has been substantially increased in recent years, and all families are now eligible for a minimum level of assistance regardless of income. In order to address the broad prescriptions for change outlined above, child care assistance should provide the greatest benefit for those women for whom the cost of not participating is greatest, that is women who would otherwise be earning high incomes. Currently, however, the means-tested nature of these payments means the opposite is true. This may suggest a case for expanding access to subsidies among higher income earners. Equity and budgetary issues would again be raised, as they would for family payments.

However, factors other than cost – such as perceived quality of care – may also be influencing the use of child care by parents. In order to enable women to combine work and child-bearing, it is likely that both the quality of child care, as well as its cost, will have to be considered. Because the nature of the child care provided may also have an influence on overall human capital attainment, these qualitative issues may be doubly important.

For this reason, a re-thinking of our current approach to child care – which may involve a combination of increased subsidies as well as new ways of providing care – may be warranted. Work-based child care is one option that could be considered. Current taxation legislation makes it cheaper, in many instances, for an employer to provide a car rather than a crèche as a fringe benefit (as discussed in Megalogenis 2000). This represents one example of the kind of policies that could be examined as part of any review.
Family assistance programs

A range of publicly provided health and education services, along with programs such as parenting assistance, are already available to help families invest in their children. However, research indicates that such programs tend to be disproportionately accessed by the middle classes, with relatively few of the benefits captured by the lowest-income families (Bryson 1992). For this reason, increased provision of services alone, in the absence of policies to broaden the take-up rates, is unlikely to result in the benefits flowing to those families that currently use them least.

On the one hand, this may suggest a case for better promotion of the assistance currently available to parents, such as health, education, child care and parenting assistance, as well as counselling or conflict resolution programs that may assist with relationships. It is possible that many people are not fully aware of the full range of programs available, and how these may be useful. The more information on such services that people have access to, the more likely it is that any decisions will be fully informed.

On the other hand, some aspects of the way in which services are currently provided may be acting as effective disincentives to their use. It is of little use attempting to target services to low-income families if, for example, they are not accessible by public transport, or the fee-for-service is set at a prohibitively high level. These issues must also be dealt with.

One possible, although controversial, tack to take would be to consider linking the receipt of some family allowances to the accessing of appropriate services. Maternity Allowance, the second instalment of which now requires parents to demonstrate age-specific immunisation, provides some precedent for this. If the Government wishes to ensure that all Australian children benefit from the resources and assistance available to them, and that the productive potential of the future labour force is maximised, further interventions of this nature may work towards this end. This would, however, warrant a full investigation of all the possible ramifications of doing so prior to it being enshrined in policy.

Maternity payments

A number of government payments provide income to individuals who are not fully participating in the labour market because of their responsibility for children. In some ways, these payments compensate for the indirect, or opportunity, costs of having children, in that they reduce the financial impact of taking time out of the workforce to have and care for children. The main form of assistance is Parenting Payment, which is available to single or partnered parents with income below the threshold amount. In addition, Family Tax Benefit Part B is available to single-income families with children, including lone-parent families. A lump-sum Maternity Allowance is also payable on the birth of a newborn child, subject to the income test for the payment.
These payments are generally subject to the principle of means testing, in line with most forms of social security assistance in Australia, to ensure that benefits are targeted to those most in need. This means that, as with child care and family payment benefits, the greatest benefit is captured by the lowest income women. Conversely, relatively little benefit accrues to women in higher-income households. This is contrary to the ideals, identified above, that state that the costs of having children should be reduced particularly for high-income women, in order to halt or reverse fertility decline.

Many European social assistance schemes tie the level of government-provided assistance to previous earnings. However, this would be contrary to the principle of targeting assistance, which is one of the fundamental tenets of the Australian social security system. For this reason, the remedy does not necessarily lie in the expansion of income support to higher-income individuals.

Rather, it suggests that serious attention should be given to the possibility of encouraging or requiring firms to offer a period of paid maternity leave to their employees. This would deliver the greatest benefit to those on high incomes, and thus effectively offer a larger inducement to have more children to those women currently having the fewest. The scope to develop and negotiate ‘win–win’ outcomes for employers and employees in this area has already been identified and recognised, with firms who offer such ‘career break’ opportunities reaping benefits from reduced staff turnover and training requirements (DEWRSB 1999). A role for government in pursuing this further is suggested.

**Family-friendly policies**

Policies that allow the combination of work and parenting responsibilities appear to be reasonably effective in arresting fertility decline. Higher fertility rates are found in countries with a greater emphasis on services, including child care, aged care, education and health, as well as flexible working conditions (McDonald 1997). These conditions allow women with children to maximise their workforce potential, and as such reduce the relative value of what is foregone by having children.

This indicates that ‘family-friendly’ workplace policies in the present may be an essential component of the country’s ability to maximise economic growth in the future. There is substantial evidence that these policies have bottom-line benefits for firms, in terms of reduced staff turnover and absenteeism, and increased productivity and job satisfaction (DEWRSB n.d.). In so far as they may also contribute towards arresting declining fertility rates, they have an additional ‘public good’ function, meaning that the amount supplied in an unregulated market is likely to be less than optimal. This indicates that there is a role for government in identifying, promoting and, if necessary, enforcing workplace policies that allow parents to effectively combine their work and caring responsibilities.
8. Conclusions and recommendations

The information provided above allows us to arrive at some conclusions about the nature of approaches to family policies and assistance that may enable us to capture population growth and quality enhancement as an endogenous feature of growth.

These approaches will need to incorporate, on the one hand, policies that allow, or increase the incentives for, high human capital families to have children. Such policies are likely to revolve around reducing the opportunity cost of doing so for these women. The promotion of ‘family friendly’ practices, as well as paid parental leave, are likely to be one part of this; a re-thinking of child care policies and subsidies may be another.

On the other hand, the approaches should also focus on enabling families to attain high levels of human capital per child. Assistance in this area should be particularly targeted at low human capital families, who may currently invest less than optimally in this area. Significantly, an approach that is substantially different from – and even contrary to – current family payment policy in some ways may be indicated.

A wide range of policies and issues affect fertility decisions. This indicates that a whole-of-government approach to the issue is warranted, and that the possible fertility impacts of policies across a range of portfolios should properly be considered.

Ultimately, many of the factors that influence the fertility decisions individuals make, such as their personal beliefs or attitudes towards having children, may lie outside of the control of government. It is not clear to what extent government moves to shift these might ultimately be effective. This fact is likely to dampen the overall effect of any policy interventions that are attempted.

However, Australia cannot reap the benefits of increased investment in research and development or innovation if it does not create the kind of population who can maximise the return from this investment. This means taking an active approach to creating a growing population who are rich in human capital investment. This properly starts not with increased university funding, but free and accessible baby health clinics, high quality child-care, and a positive approach to combining work and parenting responsibilities. Failing to do so will mean not only possibly having to compromise our current high standards of living, but also running the risk of exacerbating current socioeconomic inequality.
Endnotes

1 In Australia and other developed countries, it is likely that overall $dV_C > V_C$, although in countries without aged pension or other social security systems, this may not necessarily hold true.

2 US author Elinor Burkett’s book *The Baby Boon: How Family-Friendly America Cheats the Childless* airs alleged grievances of the childless. Complaints include that the childless effectively subsidise those with children, regardless of the respective means of each group (as discussed by Tessa Boase, ‘The Baby War’ in the *Australian*, 21 November, 2001). Australian childless couple Susan and David Moore published the book *Child-Free Zone: Why More People are Choosing NOT to be Parents* in 2000. The taxpayer subsidies that flow to those with children are one of the issues raised in the book. The work attracted media commentary in subsequent weeks, for example Sally Loane ‘Two’s all the company you want in the child-free zone’ (*Sydney Morning Herald*, 10 July 2000), or Liz Porter ‘Blame the spoilt brats, not their off-spring’ (Age 3 December 2000).

3 Moral, and even practical, arguments may well lead to a different conclusion. However, these are separate debates and they are not specifically examined here.

4 This is only one of the suggestions made in this article.

5 Unless a formal conscientious objection has been made.

6 Family Tax Benefit Part B, which provides additional financial support for single income families with children, is free of an income test on the primary earner, but is affected by the earnings of the secondary earner. It is effectively free of an income test for lone-parent families.

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What future for welfare?

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‘The time is now ripe to ask how we are going to organise welfare after the welfare state’ —Maurico Rojas (2001, p. 9)

1. Introduction

Two different debates about welfare are taking place across the English-speaking countries. One is about reducing welfare dependency; the other is about encouraging the growth of ‘asset-based welfare’.

The first debate is focused on transferring as many people as possible from welfare dependency into work. This debate has been given considerable impetus by the radical reform of the American welfare system in 1996. In just five years, the United States reduced its welfare rolls by more than half. The question in Australia and New Zealand is whether we can and should emulate what the Americans have done in order to reverse what has been an inexorable upward trend in rates of welfare dependency.

The second debate has been prompted by the financial problems facing a number of government-funded retirement pension schemes in western Europe and North America. This has focused attention on encouraging more people to make private provision for their own retirement, and this has in turn stimulated a broader interest in compulsory savings and what has been called ‘asset-based welfare’. Initiatives now taking place in the United Kingdom, the United States and other parts of the world aim to encourage individuals to build up assets that can be used to fund all sorts of needs in addition to retirement and which aim to extend personal autonomy and independence.

Taken together, these debates about ending welfare dependency and extending asset accumulation constitute a newly emerging policy agenda that is taking us beyond traditional concerns with the socialised provision of services and the extension of the ‘social rights’ associated with twentieth century citizenship.
2. Changing role models: From Sweden to the United States

In *Citizenship and social class*, T. H. Marshall identified the ‘social rights’ embodied in the twentieth century welfare state as the cornerstone of modern ‘citizenship rights’. This idea has since become embedded in the widely held assumption that civilised countries are marked by high levels of government social provision. As Assar Linbeck put it, the welfare state is a ‘triumph of modern civilisation’ (quoted in Rojas 2001, p. 7).

This association between state welfare and social progress has often resulted in the Scandinavian countries being identified as models to be followed (for a recent Australian example, see Nevile 2002). Equally, countries like the United States with more niggardly welfare support systems have been criticised as ‘uncivilised’, and attempts by governments to halt the growth of welfare spending have been criticised as marking a slide into ‘barbarism’ (in the 1980s, for example, a leading British social policy academic claimed that Margaret Thatcher’s Britain was ‘rapidly losing its claim to be a civilised society’ because of the slow-down in welfare spending—Alan Walker, quoted in Green 1990, p. 8).

In recent years, however, the financial problems encountered by the Nordic welfare systems have eroded the belief that they represent a model for other countries to follow. In Sweden, where the government absorbs 65 per cent of GDP (Sandberg 1997), significant changes had to be made during the 1990s as costs escalated and the economy weakened. Welfare services were trimmed, waiting periods were introduced for new claimants, greater emphasis was placed on work and retraining as alternatives to welfare, tighter qualifying conditions were applied for those seeking benefits, a portion of the age pension was linked for the first time to individual contributions and the generous ‘replacement rates’ which had enabled unemployed, sick and retired workers to maintain an income very close to their previous full-time working wage were reduced.

Compared with what was happening elsewhere, none of this was particularly dramatic, but the distinctive character of the social-democratic welfare regime—its refusal to link support to economic activity—was to some extent undermined (Stephens 1996, p. 55). Most Swedes remain bullish in their defence of this system (as Jones 1996 points out, public servants and those on welfare benefits make up a majority of Swedish voters, and this creates a strong lobby with an interest in maintaining the system), and in his 1999 budget speech, the Swedish Prime Minister promised that ‘Sweden will consolidate its position as a leading welfare nation’ (*New York Times* 10 October). Nevertheless, the Scandinavian welfare model is clearly on the defensive.

The country that is today setting the welfare policy agenda (at least in the Anglophone world) is no longer Sweden; it is the United States.
3. Welfare reform in America

All the Anglo countries have seen rates of welfare dependency escalate alarmingly since the 1960s. In New Zealand, 21 per cent of the workforce was ‘state dependent’ in 1996—an increase from just 5 per cent 20 years earlier (Green 2001, p. 48). In Australia, the proportion of the working age population depending on state welfare payments for 90 per cent or more of their income rose from just 3 per cent in the early/mid-1960s to 13 per cent by the late 1990s (Department of Family & Community Services 1999). In Britain, the proportion of the population dependent on income support rose from 4 per cent in 1951 to 17 per cent in 1996 (Green 1998, Smith 2001). And in the United States, where welfare is limited mainly to families with children, the proportion of families living on welfare increased from 1 per cent before the war to 15 per cent in the mid-nineties, with a 230 per cent increase coming in the ten years from 1963 to 1973 (Besharov & Germanis 2001; Clark & Hein 2000). Across these countries, welfare expenditure rose by as much as 400 per cent in real terms in just four decades, yet this was a period of virtually uninterrupted economic growth when individual self-reliance might have been expected to increase rather than wither.

It is America that has seized the nettle. The federal government’s 1996 Personal Responsibility and Work Opportunity Reconciliation Act set out to reverse this 50-year trend of increasing welfare dependency by setting minimum targets for all states to reduce their welfare rolls, obliging welfare claimants to find work within two years, and barring anybody from receiving benefits for more than five years in total. The results provided the first indication that the expansion of ‘social rights’ is not, after all, inevitable or irreversible.

Nationally, the number of Americans on welfare fell by 58 per cent between 1996 and 2000 (New 2002), and the social calamity anticipated by opponents of the reform has yet to materialise. Most of those leaving the welfare rolls found and retained jobs (albeit quite low-paid ones) and most former claimants reported enhanced levels of self-esteem as a result of getting off welfare and into work (Loprest & Brauner 1999). Child poverty did not worsen as a result of the draconian cuts in welfare support (New estimates that child poverty actually fell by 2.3 million) and behavioural and educational outcomes for younger children seem to have improved (Butler 2000). Nor does ‘social cohesion’ seem to have been damaged by the welfare roll-back: crime rates fell significantly during the nineties, and rates of single parenthood began to stabilise (Phillips 2001).

Whether these positive results flowing from welfare reform can be sustained in the future is a matter of some debate. New (2002) claims that economic growth during the nineties contributed little to the fall in the welfare rolls, but Besharov and Germanis (2001, p. 69) estimate that only between 30 and 45 per cent of the reduction in welfare rolls was caused by the welfare reforms while the rest was due to favourable economic conditions (15 to 25 per cent) and to enhanced support for low-paid workers in the form of tax credits and a higher minimum
wage (30 to 50 per cent). If they are right, the end of the long economic boom may make it more difficult for welfare claimants to find and keep work in the future, and there are now signs that welfare dependency may be starting to rise (Besharov 2002). The most judicious conclusion is that the reforms had an effect, but that recession will erode some of the gains that have been made.

Noting the apparent success of the American reforms, other Anglo countries have taken cautious steps to reform their welfare systems. New Zealand extended work tests for sole parents and tightened the eligibility requirements for sickness and disability benefits, although some of these changes have now been reversed (Green 2001). Australia and Britain both introduced measures designed to encourage or require various categories of welfare claimants to take up work or training, and in Canada, Ontario introduced a new workfare requirement (Schafer et al. 2001). None of these countries seems willing or able to impose the sorts of sanctions for non-compliance that are entailed in the American reform, however, and the results so far are nowhere near as impressive.

4. Do we need a welfare state?

Some commentators believe that the sorts of measures taken in America could not work elsewhere. Underpinning this assumption is the lingering belief that modern, ‘civilised’ nations ‘need’ a welfare state, and that the factors that brought the modern welfare states into existence a hundred years ago are still pertinent today.

There are two principal explanations for why governments became involved in supplying welfare. One is that industrialisation undermined people’s self-reliance by replacing subsistence economies with widespread dependency on an insecure system of paid labour. Some way had to be found for supporting workers and their dependants at times of unemployment or sickness when they had no market income, for people could no longer rely on traditional family and community networks for support. In addition, new technologies required a more educated workforce, and the health and housing problems brought about by the expansion of industrial cities demanded an increasingly proactive role for government. For all these reasons, the welfare state was an imperative of industrialisation (Wilensky & Lebeaux, 1965).

A second explanation emphasises the socio-political, rather than economic, functions of the modern welfare state, pointing to the crucial role it plays in maintaining social integration and cohesion. James O’Connor (1973), for example, argued that government welfare spending performs a ‘legitimation function’ which helps maintain social harmony in the face of the continuing exploitation of labour in the workplace. A parallel argument has also sometimes been employed by more conservative thinkers who emphasise the ‘integrative’ role of the welfare state in fostering nation-building.
Stripped of their functionalist overtones, both the economic and socio-political explanations for the emergence of the western welfare state have some historical basis. It is true that in Europe, problems posed by industrialisation and urbanisation **did** prompt governments to develop some early welfare initiatives (although Australia adopted a different strategy, protecting the earnings of male industrial workers with high tariffs and wage regulation). It is also true that a political concern to appease the growing power of the industrial working class did in some cases lead governments to introduce social welfare as an ameliorative measure designed to maintain social unity (see Dickens 1977), although Australia was again an exception, for here mass home ownership played a key role in securing legitimacy (Kemeny 1992).

The key question, however, is whether these factors **still hold today**. Do individual citizens in the wealthy countries still need a state welfare system to maintain themselves, and would these countries start to fragment and disintegrate without some sort of state welfare system to hold everybody together? For the remainder of this paper I shall focus on the first of these questions—for a consideration of the second, see Saunders (1993).

5. Could people afford to look after themselves without a welfare state?

The welfare system which developed in response to industrialisation and urbanisation was a **mass** system because the health, housing and education problems of the time were **mass** problems. This does not mean they could only be solved by governments, for David Green's work in Britain and Australia has shown that working families in the nineteenth century often came together in mutual associations to organise their own health care and sickness/incapacity benefits. But few workers could hope to purchase these things **individually** through market transactions. Some sort of collective response was necessary if working people were to achieve a tolerable standard of health, education and retirement income, and if these things were not provided through the government, then they would have to come from other collective agencies such as the friendly societies, the churches or the philanthropic charities.

A hundred years later, this is no longer the case. Economic growth has transformed all western societies, for living standards have been doubling every generation or so—the average American's purchasing power has increased **3000 per cent** in the past two hundred years (Saunders 1995). Most people in these countries today are therefore capable of accumulating enough money in the course of a lifetime to pay for most if not all of these requirements, and many are already doing precisely this. Only a minority of the population still requires the government to provide them with income and/or services (in Britain, David Marsland [2002] estimates their numbers at around 15 per cent). The **mass** problems that brought the...
twentieth century welfare state into being have therefore been dissolving, and the welfare system has in consequence become increasingly anachronistic.

6. The growth of self-reliance

In earlier work I suggested that the advanced capitalist countries are undergoing a transition from a ‘socialised’ to a ‘privatised’ mode of consumption (Saunders 1986). I argued that the socialised system of direct state provision evolved at a time when the mass of the population was financially incapable of providing for its core needs, but that since World War II, economic growth had enabled increasing numbers of working class as well as middle class people to aspire to private solutions in transportation, housing, retirement and even health and education.

I emphasised that this transition does not mark a return to the nineteenth century ‘market’ mode, for ‘privatised consumption may, and often does, still involve considerable state subsidy’ (p. 315). The change has been in the form of government support (a shift away from direct provision to subsidies) more than its extent, although the scope certainly exists for reducing the overall level of state expenditure. I further argued that the factors driving this transition—the financial strains generated by the welfare state, the growing popular demands for greater control, the growth of real incomes and the cycle of decline in the quality of public services—would almost certainly mean that this shift to a privatised mode would continue into the future.

Examples of this shift are easy to find. Housing is probably the most expensive single item that ordinary people have to provide for themselves over the course of their lives, yet around seven out of every ten households in the Anglo countries now own or are buying their homes (the highest rates of owner occupation in the developed world—Saunders 1990). Similarly, many people in Australia and Britain struggled to make adequate provision for their old age before government-financed pensions were introduced about a hundred years ago (Jones 1996, p. 16), but today most of the working population in both countries belongs to private sector superannuation schemes (in the United Kingdom membership is voluntary and is financed by employees and employers; in Australia membership is compulsory and is paid out of the wage fund by employers).

Even in health and education, increasing numbers of people now pay for private provision, although private sector services are often subsidised or underpinned by government. In New Zealand, more than one-third of the population is covered by private medical insurance (Cox 2001a, 61) while in Australia, 45 per cent have hospital cover and 41 per cent have ancillary health cover to complement the socialised system (PHIAC 2002). In Australia, more than 30 per cent of students attend (subsidised) non-government schools (Buckingham 2001, p. 7), and in both countries (as well as the United Kingdom), higher education students now pay at least a proportion of their college fees.
Many people can also afford to save against eventualities which are currently covered by welfare state transfer payments. One-quarter of low-to-middle income earners in the United Kingdom save on a regular basis, and a majority save at some point in their lives (Whyley & Kempson 2000). In Australia, more than one in two households owns shares, either directly or through a managed fund, and savings and investment income have both increased substantially as a proportion of family wealth in recent years (Kelly 2001).

None of this is to deny that some sections of the population may still be unable to finance their own provisioning, and we shall consider later in this paper how future welfare policy might respond to their needs. Two points, however, stand out. First, as Lawrence Mead (2000) has pointed out in relation to the United States, ‘poverty’ is today mainly a function of worklessness. Very few households with at least one adult member in full-time employment find themselves below the poverty line—in Australia, the figure is just 3 per cent (Harding et al. 2001). The principal solution to poverty today therefore lies, not in increasing welfare, but in finding ways of ensuring that all those who are capable of working can find employment, for this is the key to economic self-reliance.

Secondly, what was once a problem for the majority of the population is now a problem only for specific minorities. The need for government help has not disappeared altogether, but it is today concentrated in a small section of the population. Most households enjoy a total lifetime income that would meet most of their lifetime needs if only they did not lose so much of their earnings in taxes (Sullivan 2001).

7. Redistribution across the lifespan

Most of the income redistribution that takes place in the modern welfare state is not between richer and poorer individuals, but is across the lifespan between richer and poorer periods of people’s own lives. The welfare state has evolved as an elaborate and extremely expensive way of ensuring that individuals save for their own future needs.

It is only in recent years, with the development of national panel study designs, that researchers have come to realise how much people’s incomes fluctuate over time. Individuals who have relatively low incomes at one point in time enjoy higher incomes at another.

In Britain, nearly two-thirds of those in the bottom income quintile in 1991 had risen above it by 1995, and 17 per cent of them ended up in the top half of the income distribution (Green 2000, p. 32). Less than 2 per cent of the population remained in poverty throughout the period 1991 to 1997 (Devicienti 2001). Similar patterns have been found in other European countries. Setting their ‘poverty line’ at 60 per cent of median income, Whelan and his colleagues (2001) reviewed
evidence from 11 western European countries and found that between half (in Greece and Portugal) and two-thirds (in the Netherlands) of those in poverty in 1993 did not remain in poverty through 1994 and 1995.

Australia and New Zealand do not yet have panel survey data to draw upon, but the pattern in these countries is unlikely to be very different from elsewhere. Mark Latham (2002a, p. 5) believes that long-term poverty is the exception rather than the rule in Australia, and George Barker estimates that 25 per cent of those in the bottom income quintile in New Zealand moved up within one year (although his figures are based only on taxpayers—see Cox 2001a, p. 119). Income mobility is probably very common in all developed countries, and persistent poverty is much lower than cross-sectional surveys have hitherto suggested.

The fluctuation in people’s incomes over time has significant implications for welfare policy, for it suggests that people’s capacity for self-provisioning should be assessed over the whole of their lifetime rather than freezing the picture at just one point in the life cycle. When we do this, we find that most people—perhaps three-quarters or more of them—could probably fund their own social requirements with little or no subsidy or transfer from the state.

Research by Jane Falkingham and Ann Harding (1996) has tracked the lifetime redistributive effects of the taxes paid and cash benefits received by British and Australian individuals in a simulated model based on conditions pertaining to those countries in the mid-1980s. They find in both countries that the tax and benefits system is redistributive both between people and within individuals’ own lifetimes. In other words, individuals themselves finance by their taxes a portion of the cash benefits they receive at various points in their lives. Assuming that benefits are paid for out of a combination of direct and indirect tax revenues, Falkingham and Harding calculate that the average Australian pays for 52 per cent of her/his lifetime cash benefits and the average Briton pays for 71 per cent.

What is particularly interesting about these findings is that even the lowest lifetime income groups pay quite substantial amounts towards their own cash benefits. This is particularly true of Britain where the lowest income decile finances more than half (54%) of its lifetime welfare state cash receipts through tax and National Insurance payments, but even in Australia, the bottom decile self-finances 28 per cent of its cash benefits, and every group from the fourth decile upwards pays for more than half of what it gets back.

Falkingham and Harding do not go beyond cash transfers to include in their models the value of welfare state services in kind (things like public education, government health schemes, state-financed child care, and so on), although they do recognise that benefits in kind are often socially regressive.

This has been demonstrated in Britain by Hills (1997) who analyses lifetime receipts from government education and health provisions as well as from social security benefits. He finds that the ‘lifetime poorest’ take out almost exactly the
same amount of total value as the ‘lifetime richest’ and that, on average, Britons self-finance three-quarters of what they receive. Only in the bottom decile do people pay for less than half of what they get (and even there they pay for about one-third of it). Just one notch further up the distribution, at the second income decile, individuals are paying for nearly two-thirds of what they get back.

This same sort of pattern has been reported for other countries. Rojas (2001, p. 35) finds much the same sort of churning occurring in Sweden, and Foelster (2001, p. 75), reviewing several western countries, concludes that between 75 to 80 per cent of their social expenditure consists of redistributing individuals’ incomes over time rather than between different people.

Given that Australian government spending on ‘middle class welfare’ (health, education and retirement incomes) is lower than in many other OECD countries, the extent of churning may be less, but increasing levels of income assistance (coupled with the higher taxation required to pay for it) leads Cox to believe that ‘many families find themselves both substantial contributors to the welfare state and substantial beneficiaries of it’ (2001b, p. 35). In New Zealand, Cox (2001a) estimates that over their lifetimes, the top 60 per cent of income earners contribute 85 per cent of tax revenues, but in return claw back 40 per cent of all government social expenditure including 68 per cent of the education budget and 53 per cent of the money spent on health. They even manage to get their hands on 23 per cent of the money spent on welfare benefits.

Much of the activity of the welfare bureaucracy therefore involves taking money away from people at one point in time in order to give it back to them at another. This suggests that, for the majority of the population, we could decide to leave the money in people’s pockets and let them purchase the services and insurances that they want, rather than the government making these decisions for them. Reviewing evidence from Australasia, North America, South-East Asia and Europe, Cox (2001a) shows that state spending on health, education and superannuation tends to vary inversely with private expenditure on such items. Where taxes and welfare spending are lower, people spend more of their own money buying private services, which means they are no worse off (and may be better off) than people in countries where the state provides more of these things out of tax revenues. Private and public provision are to a large extent substitutable, which means that government welfare spending ‘crowds out’ private spending.

Some analysts believe this is a price worth paying. In his latest book, for example, the Social Policy Research Centre’s Peter Saunders accepts that ‘many welfare programs redirect resources back to those who originally provided them’ and that the same ‘net distributional impact could be achieved with a far smaller state sector.’ Nevertheless, like Goodin and Le Grand (1987) before him, he believes that giving benefits and services to people who do not need state help has the important effect of binding the middle classes into the system. Giving affluent people benefits ensures that they have a continuing interest in maintaining and improving the system, which in turn benefits those who really do rely on it.
There may be other advantages, too, of leaving provisioning in government hands even though many people could afford to buy privately. Public service bureaucracies do not have to carry overhead costs such as advertising, nor do they have to pay dividends to shareholders. Furthermore, government services are unlikely to go bankrupt (although service quality can deteriorate), so continuity of supply is more easily guaranteed, and in some services, such as education, there are clear ‘public goods’ considerations that might justify continued public subsidy, if not direct state provision.

But government churning of people’s incomes also has a heavy downside. It distorts information about people’s preferences, it encourages special pleading by interest groups, it crowds out potentially innovative private initiatives, it creates work disincentives and moral hazards, and it erodes personal freedoms (Cox 2001a). It can also lead to inefficiencies in terms of transaction costs—Laband and McClintock (2001) estimate that $125 billion is spent annually in the United States by individuals attempting to attract or resist government transfers of income and wealth.

8. Singapore and Chile as models

Across the political spectrum in Australia, there is a growing sense that the welfare state is no longer working as was originally intended. Some of the most critical commentary is coming from ‘the left’. Noel Pearson complains that, ‘The indigenous experience of the Australian welfare state has been disastrous’ (2001, p. 15) and the Labor MP, Mark Latham, complains that, ‘Welfare policy ... has become a sacred cow—full of warm rhetoric, good intentions and noble traditions. The only problem is that it’s not getting results’ (2001a, p. 130).

Behind comments like these is the recognition that social benefits have failed to eradicate poverty and may even have contributed to it by undermining the work ethic, creating a set of perverse behavioural incentives, and generating a cross-generational culture of hopelessness and fatalism. The search has begun for an alternative, and considerable interest has been paid to the systems of personal savings accounts pioneered in Singapore and Chile.

In 1955 Singapore established a compulsory retirement savings scheme under which workers and their employers were obliged to deposit a percentage of earnings into individually-earmarked accounts run by a government-managed Central Provident Fund (CPF). Today, workers have to deposit 20 per cent of their gross earnings in the CPF (up to a monthly ceiling) and employers a further 12.5 per cent (there is no direct government contribution). As time has gone on, the permitted uses of these individual accounts have been expanded beyond retirement pensions to include medical care and illness insurance, house purchase, education and even purchase of equities on the Singapore Stock
Exchange (McCarthy, Mitchell & Piggott 2001). Funds administered by the CPF now amount to S$8.5 billion—60 per cent of Singapore’s GDP—and the scheme covers some 2.5 million wage and salary earners.

In 1981 Chile privatised its social security system, which was threatening to collapse into insolvency. As in Singapore, workers were compelled to pay a proportion of their earnings (minimum 10 per cent) into a private account, but unlike Singapore, they could choose between as many as 20 competing fund management organisations (known as AFPs). As in Singapore, the government does not contribute to these funds, but—unlike Singapore—it does use general tax revenue to make up any shortfall in people’s accounts when they reach retirement age. Today, total assets in these schemes have grown to US$34 billion—42 per cent of Chile’s GDP—and they cover 95 per cent of full-time workers (Rodriguez 1999).

Neither of these schemes is without its problems. In Singapore, withdrawals to pay for home ownership have depleted some people’s accounts to a level which may be insufficient to purchase an adequate old age annuity (a South China Morning Post survey published on 25 August 2000 found that only 44 per cent of respondents believed that their funds were sufficient to cover their retirement needs). Many retirees will probably end up selling their homes and living with their children (a cultural pattern with a long history in this part of the world).

The Chilean system, too, has had problems. Administrative costs soak up a substantial proportion of fund profits and effective coverage is patchy because unknown numbers of casual and temporary workers do not belong to any scheme (Huber 1996). Nevertheless, the architect of the reform, Jose Pinera (1995), claims that old age pensions are 40 or 50 per cent higher than under the old system, and the future burden of taxation has been reduced. Meanwhile, a huge pool of enforced savings has been generated which has provided the investment capital needed to sustain rapid economic growth. In the mid-nineties, the savings rate in Chile was about 26 per cent of GNP—almost double the South American average, and close to the level of the Asian tiger economies—and the economy was growing at an annual rate of about 6 per cent.

Whereas the traditional, western-style, welfare state drains money away from investment, systems such as those developed in Singapore and Chile seem actively to promote growth and profitability. It is this dual feature of asset-based systems—their capacity to deliver better benefits to individuals while also generating economic prosperity at a society-wide level—that is proving particularly attractive to governments elsewhere.

**Asset-based welfare**

In Singapore and Chile, individuals are obliged by law to save but the government contributes nothing. As these ideas have percolated through to western governments, the compulsory element has been questioned and the role of government has been strengthened. The result has come to be called ‘asset-based welfare’.
The main impetus has come in the reform of retirement pensions. In the United States in 1950 there were 16 workers for every retiree receiving social security; today there are three and in 30 years there will be two (Block et al. 2002). Fears that the social security system is running into a huge future deficit have prompted moves to replace the existing system of social security support for the elderly with a new system of personal pension accounts (Taylor 2001).

The introduction of compulsory superannuation in Australia in 1992 was similarly prompted by a concern to reduce the long-run demands on the federal government’s means-tested age pension scheme. Government expenditure on age pensions is now expected to rise by less than 2 percentage points over the next 50 years in Australia—three times less than the growth of projected spending in New Zealand, where there is bi-partisan agreement to retain a tax-funded age pension system (Commonwealth of Australia 2002, p. 5).

While the crisis in funding state retirement pensions sparked the initial interest in asset-based welfare, the reform agenda rapidly expanded to encompass many other forms of saving. In America, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act allowed states to set up ‘Individual Development Accounts’ (IDAs) using federal welfare funding. IDAs are personal savings accounts aimed at poor families. Individuals are encouraged to save by matching their own contributions with government contributions (either directly, or in the form of tax credits paid by government to the lending agencies). Savings can then later be used for certain specified purposes such as house purchase, funding a small business, post-secondary education or a retirement annuity.

So far, only about ten states have established IDAs under the 1996 Act, but another 20 or 30 have developed other IDA initiatives outside of their TANF programs (Friedman & Sherraden 2001). These schemes usually involve a mix of private, voluntary and public sectors (for example, government provides tax incentives for financial institutions to offer development accounts while non-profit bodies work with poor families to provide advice and encouragement and to supervise the cashing out of the money). Most initiatives have been fairly small-scale (Schreiner et al. 2001), but a current federal initiative aims to provide lenders with up to $12 billion in tax credits and thereby to cover fully half of the American population. Friedman and Sherraden think that this might only be the beginning: ‘We are talking about a policy funded in the tens and perhaps hundreds of billions of dollars’ (2001, p. 17).

Australia does not have any equivalent of the American IDAs, but the principle of asset-based welfare is already familiar and specific proposals are now being seriously debated. Australian governments have for a long time provided financial supports and inducements for individual home ownership (the current federal government first-time home-owner grant is just the latest example), and ten years of compulsory superannuation has also laid a strong basis for the emergence of a broader, compulsory savings strategy. Under the influence of Mark Latham, the
opposition ALP is moving strongly in this direction: a recent discussion paper on economic ownership, for example, seeks to extend compulsory superannuation, develop employee share ownership, encourage individual share ownership among low-income groups by offering grants and tax subsidies, establish Lifelong Learning Accounts, and create ‘Nest Egg’ accounts in which young people can build up financial assets with some matching help from the government (Latham 2002b).

Things have gone even further in Britain. The Blair government is establishing a universal ‘Child Trust Fund’ that will provide every newborn child with a taxpayer-funded lump sum as well as offering further, means-tested matching payments for children of poor parents. There will also be a ‘Saving Gateway’ (a new system of family savings accounts in which the payments made by poor households will be matched pound-for-pound by government contributions). In both cases, the original idea was that proceeds should only be spent on approved purchases such as the deposit for a house, an adult education course, or the establishment of a small business (such restrictions are a feature of the American IDAs and are also envisaged in the Latham proposals for Australia). However, the UK Treasury has recently claimed that it will prove impossible to police the way Child Trust Fund recipients spend their money, so it now seems likely that this scheme will be unrestricted (HM Treasury 2001).

These initiatives are seen by the UK Labour government as a major innovation in social policy—‘a different way of looking at the welfare state’ (Blunkett 2000). As in America, however, they are not intended to displace any existing state welfare spending. The Institute for Public Policy Research describes asset-based welfare as a ‘third pillar’ of the welfare state, complementing the existing systems of cash transfers and direct service provision: ‘An assets-based policy is not intended to shift risk and responsibility from collective pay-as-you-go funding to pre-funded individual funding. The opportunities facilitated would be additional. Indeed, the Child Trust Fund offers an opportunity to expand the welfare state’ (Paxton & Regan 2002, section 5). Rather than offering a means for reducing existing welfare provision, therefore, these schemes are being promoted as a novel way of extending it.

9. Could asset-based welfare replace the existing system?

One of the major issues in the development of asset-based welfare is whether these initiatives should be seen as complementing or replacing the existing systems of welfare support. Paxton and Regan argue that ‘a progressive assets-based policy will only be successful with corresponding improvements in the adequacy of [welfare-provided] income levels’ (2002, section 5). In other words, governments will have to spend more on new asset-based schemes and boost existing income transfer arrangements. Against this, however, Latham speaks of ‘freeing’ people from the ‘vagaries of the welfare state’ (Latham 2001b, p. 59), and
he has stated quite explicitly: ‘We need to move from a system of recurrent income transfers to one based on asset accumulation’ (2002a, p. 13). For this to happen, three major problems would need to be overcome.

(1) Participation by the poor
A system of personal savings accounts based on deductions from earnings assumes that people are earning in the first place, and it will only therefore cover those in regular work and their dependants. In Chile, we saw that some workers in casual or informal employment may have fallen through the net, and those with no jobs at all are obviously excluded. It is for this reason that Esping-Andersen believes that these schemes lack the ‘capacity to furnish social security in any universal way’ (1996, p. 26).

This problem should not be exaggerated. Even the poorest people do sometimes have assets (de Soto 2000), and poor people can sometimes save and invest even when they have no formal employment (for example, by using ‘sweat equity’ to build up new assets or to take over and refurbish abandoned ones). Nevertheless, we must accept that many of those without a regular income from employment will be unable to save or to contribute to health, sickness or superannuation funds on a regular basis. What, then, should be done about them?

In Britain, the government is simply giving people money (in the form of contributions to their savings accounts). This, however, has already encountered problems of fraud (a fourteen-month experiment with Individual Learning Accounts in the United Kingdom led a House of Commons committee to conclude that much of the UK£265 million paid out to 2.5 million participants went on ‘fraud, misuse and abuse’—Weekly Telegraph, 8–14 May 2002). It may also prove counter-productive, for even if recipients are required to match government contributions with their own savings, government payments into individual accounts may come to be seen by recipients as just one more source of government largesse. It would clearly be preferable to find a way of ensuring that people generate an income of their own from which they might save, providing tax breaks as an incentive, and this takes us back to the fundamental question of how to get people into jobs.

(2) Compulsory participation
The second difficulty concerns people’s reluctance to make provision for their own needs (particularly if the habits of self-reliance have been eroded over several generations of state provision). If asset-based schemes are to replace government welfare, they will almost certainly have to be compulsory. Both the Chilean and Australian superannuation systems, which were intended to substitute for government transfers, are compulsory, whereas schemes like the Blair government’s Child Trust Fund, which are being developed as a complement to existing welfare entitlements, can be left voluntary.
Compulsory participation is unattractive to libertarians who have often been sceptical of proposals for asset-based welfare. David Green (1996), for example, queries why the state should require anybody to contribute to a pension plan, for compulsion undermines the individual competence and self-management which these schemes are supposed to be promoting. But Green knows the answer to his own question. As he himself admits, some individuals will fail, without some element of compulsion, to make adequate provision for themselves, and the collectivity will then feel obliged to make some sort of unearned provision for them.

Some libertarians suggest this can be avoided by government making a clear announcement in advance that people who fail to save will not be bailed out later on (Block et al. 2002), but it is scarcely credible that any democratic government could allow elderly people to starve without intervening. Compulsory participation thus looks like the price we have to pay to avoid the free-rider problem.

Having said this, some degree of flexibility may be possible in defining minimum participation requirements. There is no reason why individuals should not have a free choice of funds in which to invest (the Chilean rather than Singaporean model). It should also be possible to save in different ways—for example, by buying property, accumulating a share portfolio or developing a business as alternatives to saving in a personal account. All that government needs to do to avoid free-riding is to ensure that all individuals build up sufficient assets to enable them to maintain themselves and their dependants without recourse to public support (Hogbin 2001, Toohey 2002). This could be done with a relatively light regulatory touch.

(3) Overcoming habits of dependency
The third problem is that people must learn the habits of independence and personal responsibility. One of the more disturbing findings arising from the ‘American Dream’ IDA experiments was that more than one-third of participants withdrew their savings for unauthorised purposes before their fund matured, even though this meant forfeiting the chance to receive matching funds. This disappointing outcome—described as ‘one of the biggest surprises’ by the organisers (Schreiner et al. 2001, v)—happened despite the extensive personal support and financial counselling which participants had received. The virtues of deferred gratification and self-sufficiency may not arise as spontaneously as some of the advocates of these schemes seem to imagine.

The fact that many of these schemes involve such an elaborate support apparatus of counsellors and advisers may itself also be a problem. A small army of support workers is mobilised to help people save, to dissuade them from disinvesting too early, and to monitor the choices they eventually make about how to spend their money. This feature of asset-based welfare may be unavoidable. In America, it is carried out mainly at a local level by voluntary sector organisations, but in Britain, schemes like the Child Trust Fund are being administered centrally by government.
bureaucrats. If the idea behind asset-based welfare is to encourage the poor to be self-reliant, then we should be cautious about allowing the government too prominent a role.

10. Conclusion

What future, then, for the welfare state?

The looming crisis in pay-as-you-go age pension systems seems likely, sooner or later, to lead to a switch to personal accounts as the preferred method for funding old age in most western countries. This has already happened in Australia (with its compulsory superannuation system); Sweden has made cautious moves in the same direction (diverting 2.5 per cent of people's incomes into new personal accounts called ‘premium pensions’—Wallace-Green 2000); and it is under serious consideration in the United States.

The more challenging question is whether a change in the way nations fund their age pensions might coincide with a shift towards personal accounts to pay for other services currently provided by governments. There are some signs that it might. We have seen how in Singapore, the system of personal accounts evolved to embrace house purchase, funding of continuing education and training, and illness and medical insurance, and a similar pattern could emerge elsewhere. Personal pension accounts could turn out to be the privatised Trojan Horse within the citadel of the socialised welfare state.

That this is even possible reflects the fact that in most western countries, most individuals today no longer need the support and protection of the welfare state. The idea of asset-based welfare has emerged at a time when most of us could (if we were not taxed so heavily) afford to buy most of the services we need, using insurance, loans or personal savings to cover the ‘lumpy’ periods of the life cycle when outgoings are highest and/or income falls. We have seen that the existing welfare system redistributes money across the lifespan more than it does between individuals, and there seems no economic reason why private insurance and various different forms of personal saving schemes should not evolve to replace this system of state ‘churning’.

The question still remains, however: What about the poorest 10 or 20 per cent of households who cannot afford to participate in such schemes? As we saw in Table 1, the bottom decile of income earners in the United Kingdom only funds about one-third of its lifetime welfare receipts, and in New Zealand, Cox (2001a) found that the bottom 20 per cent of income earners paid just 6 per cent of the taxes but received 32 per cent of social expenditure. The majority of the population may be paying for their own benefits, but this is clearly not the case for the poorest section of the population. They still need help.
The reason why they require help is that they have little or no original income, and
the reason for this, in most cases, is that they have no full-time employment. In
Australia, Britain and the United Kingdom, poverty is mainly a function of
worklessness, for no matter how they are defined, the ‘poor’ consist mainly of
working-age households (many of them single-parent families) where nobody has
a full-time job.

This is where the lessons from the recent US welfare reforms become relevant. In
the United States, the problem of poverty has been tackled head-on by requiring
able-bodied adults to find employment. Once in full-time work, their earnings can
then be supported by minimum wage laws, tax credits, even matched savings
accounts—but none of this is possible unless and until they find and keep a
regular job.

In other Anglo countries, work requirements attached to welfare have been much
less demanding than in the United States. In Australia, we are only now moving to
a system where single parents are expected to find part-time employment, and
even that will not happen until their youngest child reaches high school. There is
also the problem that the more regulated labour markets in these countries may
not be capable of generating the number of new, generally low-skill, jobs that
would be required to match America’s record in getting welfare claimants off
benefits and into work. It is therefore imperative that any radical welfare reform
should be linked to further liberalisation of labour markets.

The long-term solution to our existing problems of poverty and welfare
dependency is likely to lie first, in ensuring that everybody who can work does so
(the American welfare reform solution), and secondly, in ensuring that everybody
then sets aside a certain proportion of their earnings to enable them to provide for
their own housing, health care, unemployment and sickness insurance and
retirement income (the asset-based welfare solution).

Western countries are now wealthy enough no longer to require the mass systems
of welfare support that evolved a century or more ago. Today we need to learn our
lessons not from the universal welfare system in a country like Sweden, but from
the experience of welfare reform in the United States, and the innovations in
personal savings pioneered in countries like Chile and Singapore. Australia is well
placed to make this transition, for it is committed to encouraging welfare
claimants to find employment, and its compulsory superannuation scheme is the
foundation for what could become a much wider system of personal savings
accounts. The possibility exists for Australia to break out of the spiral of ever-
increasing social expenditure and ever-worsening rates of welfare dependency.
Endnotes

1 The author wishes to thank those who offered comments on earlier versions of this paper from participants at the Mont Pelerin Regional Meeting, Goa, India (30 January 2002), at a CIS meeting in Wellington (26 March), and at a seminar in the Department of Sociology, University of Auckland (27 March). The author also wishes to thank colleagues at CIS and the two anonymous referees for their very helpful comments and suggestions.

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Projections of the number of Income Support recipients: 2001–2051

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1. Introduction

The primary purpose of developing this set of income support projections is to understand the impact of demographic change on income support client numbers over the next five decades, 2001 to 2051. The projections will contribute to an understanding of likely trends in recipient numbers (and related measures such as dependency ratios) using alternative projections, which will allow governments to identify cost pressures and appropriately prioritise their efforts. This work was initially prepared as an input to the Technical and other appendices report prepared by the Department of Family and Community Services (FaCS) for the Reference Group on Welfare Reform.

In reality a large number of factors, often unpredictable, will influence future numbers of income support recipients. In addition to demographic trends and changing population structures, these include economic and technological changes, social and attitudinal changes, and indeed changes in social policies, including to income support and other related programs. In this regard, it is useful to separate out drivers of recipient numbers over which government can exercise control from largely exogenous factors, and drivers that are fairly predictable (and therefore easy to plan for) from those that are largely uncertain.

The focus of this analysis, however, is on a relatively predictable and largely exogenous factor—the impact on future recipient numbers of demographic trends in population numbers and structures, as opposed to other demographic trends such as changes in family/household formation and dissolution and marriage rates. The adoption of a methodology of fixed age-specific ratios of receipt of assistance permits this effect to be isolated.

However, as population projections are only as good as the underlying assumptions, and as in practice there are non-demographic drivers that affect actual future recipient numbers, alternative projections are also undertaken to provide some insight into the range of likely outcomes. Importantly, it needs to be noted that because this research was conducted before the final report of the Reference Group on Welfare Reform and the government’s response ‘Australian’s Working Together Helping People to Move Forward,’ the assumptions of rates of receipt do not reflect the impact of these policies.
In contrast to the assumption of fixed age–sex proportions of recipients followed here, two alternatives that may be used are:

- trend-based approaches, which either simply extrapolate trends into the future, or modify these with judgements on when trends will continue, accelerate or slow down. This is the approach followed by Retirement Income Modelling (RIM) in its projections of income support and labour force. This approach is followed here in alternative projections of selected income support groups.

- more complex dynamic modelling of income support based on assumptions of the likely courses of the factors underlying income support changes.

Reflecting the methodology adopted in the paper, projections are considered in three stages:

- demographic projections for Australia; this will provide the context and the basis for this analysis

- the age and sex characteristics of the current income support population according to income support type

- the development of income support recipient projections. These encompass separate projections first of working-age income supports followed by Age and Service Pension and finally total income supports incorporating FaCS and Department of Veteran Affairs (DVA) clients.

The conclusion summarises the main results of the projections.

2. Demographic trends

This section will set the demographic context for the projections of income support. It deals with the population projections and assumptions on which the income support projections will be based. It details Australian demographic trends with particular emphasis on the fertility, mortality and migration components and their effects on population structures. It also puts the Australian demographic trends into a comparative international perspective.

**Projection assumptions**

The key demographic trends that will have major influences on the future size of income support groups are underlined in the population assumptions used in population projections.

The population projections used in this paper are those produced by the Australian Bureau of Statistics (ABS). Full details of these projections are provided in the publication *Population Projections: 1999 to 2101* (ABS 2000a). The projections consist of three series; the assumptions on which they are based are summarised in Table 1. Series I is based on a combination of both high fertility and
high net migration, while series III is based on both low fertility and low net migration. Series II is based on a combination of low fertility and medium migration assumptions.

Table 1  Summary of assumptions and population in 2051 by projection series

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Series I</th>
<th>Series II</th>
<th>Series III</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fertility:</strong> Base total fertility rate (TFR) 1.75 children per woman</td>
<td>Remains at 1.75 throughout</td>
<td>Declines to 1.6 in 2008; constant thereafter</td>
<td>Declines to 1.6 in 2008; constant thereafter</td>
</tr>
<tr>
<td><strong>Mortality:</strong> One assumption, as shown by life expectancy at birth (e&lt;sub&gt;0&lt;/sub&gt;) target in year 2051</td>
<td>e&lt;sub&gt;0&lt;/sub&gt;, Males = 83.3 yrs</td>
<td>e&lt;sub&gt;0&lt;/sub&gt;, Males = 83.3 yrs &amp; e&lt;sub&gt;0&lt;/sub&gt;, Females = 83.3 yrs</td>
<td>e&lt;sub&gt;0&lt;/sub&gt;, Males = 83.3 yrs &amp; e&lt;sub&gt;0&lt;/sub&gt;, Females = 86.6 yrs</td>
</tr>
<tr>
<td><strong>Migration:</strong> Net annual migration from 2001–02</td>
<td>110 000</td>
<td>90 000</td>
<td>70 000</td>
</tr>
<tr>
<td>Total projected population in 2051</td>
<td>28 194 700</td>
<td>25 408 500</td>
<td>24 059 000</td>
</tr>
</tbody>
</table>

This analysis uses the estimated resident population as at 30 June 2001 and the Series II ABS population projections for 2006, 2011, 2021, 2031 and 2051 as a basis for income support projections. Since the development of these projections in 1999 the structure of the Australian population has continued to change, and the underlying demographic drivers continued to evolve. On the basis of these changes, it may be suggested that

- fertility could stabilise at a total fertility rate (TFR) of 1.75
- net migration could be higher than assumed in Series II².

Though Series I appears to capture these recent trends, Series II population projections continue to be a reasonable approach due to prospect of fertility decline.

**Demographic context**

Australian demography has undergone substantial changes in the past century. These demographic changes encompass all three components of population change—fertility, mortality and net migration. The interplay of these changing demographic factors has resulted in rapid population growth and massive changes in population age structure. The demographic trends also contributed to structural changes in family/household formation. A brief overview of each factor is presented in turn.

*Population size and growth:* The Australian population grew from 3.8 million at the time of Federation in 1901 to 19.2 million in June 2000. This five-fold increase represents an average annual growth rate of 1.64 per cent. Population growth was stronger in the second half of the century. This was due to a short-term natural increase, the result of the ‘baby boom’. While two-thirds of population growth during the century was contributed by natural increase, the contribution of natural
increase has been declining since the 1960s, owing mainly to falling fertility. More recently, annual population growth rate has been stable: 1.2 per cent between 1995 and 1997, 1.1 per cent in 1997–1999 and 1.2 per cent in 1999–2000. Natural increase accounted for only 54.9 per cent of the growth in 1999–2000.

**Fertility decline:** The major determinant of the Australian demographic transition has been fertility. After rising from a TFR\(^3\) of 3.1 children per woman in 1947 to 3.6 in 1961 at the peak of the baby boom, Australian fertility began its sustained decline.

It declined to 2.88 children per woman in 1966 and to below replacement-level fertility \(^4\) (2.06) in 1976. Since then Australia’s fertility has continued its decline to reach a TFR of 1.94 in 1986, 1.86 in 1996 and 1.75 in 1999. It remains at that level in 2000.

Despite Australia having now experienced declining fertility rates for a significant period, its fertility level in 1999 is still comparatively high by the standard of developed countries. As is seen from Table 2, it falls short of the fertility level of the United States, New Zealand \(^5\), Norway and France only.

A new explanation for the sustained very low levels of fertility recorded in countries such as Italy, Spain, Greece, Portugal and Japan is offered in McDonald (2000). He suggests that these societies have not yet moved very far away from the male breadwinner model of the family and parenthood toward the gender equity model of the family, in terms of social and economic institutions, as found in advanced countries with relatively high fertility. (The case of Germany does not fit this thinking, as its overall fertility level was pulled down by the low levels of the former East Germany, which underwent massive social and economic structural changes that may have had a negative impact on fertility.)

If this explanation is valid, it suggests that policies such as access to childcare, employment and training, which support an active economic role for women while allowing them to combine this with child rearing, are important to maintaining fertility rates.
Table 2  Fertility and mortality measures for selected countries: circa 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>Birth rate (per 1000 pop)</th>
<th>Total fertility rate (birth per woman)</th>
<th>Death rate (per 1000 pop)</th>
<th>Natural rate of increase (per 000 pop)</th>
<th>Infant mortality rate (per 1000 live birth)</th>
<th>Life expectancy at birth (in years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Spain</td>
<td>9.6</td>
<td>1.20</td>
<td>9.4</td>
<td>0.2</td>
<td>4.9</td>
<td>75.1</td>
</tr>
<tr>
<td>Italy</td>
<td>9.3</td>
<td>1.23</td>
<td>9.9</td>
<td>–0.6</td>
<td>5.2</td>
<td>75.5</td>
</tr>
<tr>
<td>Greece</td>
<td>9.7</td>
<td>1.28</td>
<td>9.8</td>
<td>–0.1</td>
<td>5.9</td>
<td>75.5</td>
</tr>
<tr>
<td>Japan</td>
<td>9.4</td>
<td>1.34</td>
<td>7.8</td>
<td>1.6</td>
<td>3.4</td>
<td>77.1</td>
</tr>
<tr>
<td>Germany</td>
<td>9.4</td>
<td>1.36</td>
<td>10.3</td>
<td>–0.9</td>
<td>4.7</td>
<td>74.7</td>
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<td>1.45</td>
<td>9.9</td>
<td>0.8</td>
<td>5.0</td>
<td>74.6</td>
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<td>10.8</td>
<td>0.8</td>
<td>5.6</td>
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<td>10.7</td>
<td>–0.7</td>
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<td>12.1</td>
<td>1.62</td>
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<td>6.3</td>
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<td>12.6</td>
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<td>9.2</td>
<td>3.4</td>
<td>4.8</td>
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<td>14.5</td>
<td>2.08</td>
<td>8.7</td>
<td>5.8</td>
<td>7.2</td>
<td>74.1</td>
</tr>
</tbody>
</table>

Sources:

Mortality decline: There have also been significant reductions in mortality over the past hundred years. Life expectancy at birth for Australian males increased from 55.2 years in 1906 to 76.6 years in 1998–2000. The corresponding increase for females was from 58.8 to 82.0 years (ABS 2000c, pp. 90–91 and ABS 2001, p. 47). As Table 2 shows, the infant mortality rate has reached a low level of 5.3 infant deaths per 1000 live births in a year. The crude death rate in 1999 was 6.8 deaths per 1000 population in a year.

A comparative perspective of mortality levels in developed countries is given in table 2 above. Of the indicators shown, only the infant mortality rate and life expectancy at birth should be used for national mortality comparisons. Since the crude death rate is heavily affected by differences in age structure, it is only given here to indicate its relative significance for natural rate of increase—that is, the difference between the birth rate and the death rate. As is seen from table 2, Australia has achieved comparably high life expectancy and a low infant mortality rate. However, there appears to be room for further mortality reduction, given the higher longevity already enjoyed by some other countries, and the improved medical prospects for further gains in the survival and health of infants and the elderly population.
International migration: Net annual migration since the post-war period, while volatile, has been an important component of Australia’s population growth. The volatility in net annual migration is the product of a range of factors including changes in government policy, and economic, political and social conditions in Australia and overseas.

The impact of these factors can be seen in recent population changes. The average annual net migration declined from 100,700 migrants in 1979–1990 to 83,100 in 1990–1999 (ABS 2000d, pp. 15). The net annual migration of 99,100 in 1999–2000 was the highest since the highs of 1988 (149,300), 1989 (157,400) and 1990 (124,600). Net annual migration is expected to be a major component of future population growth and age structure given the prospect of either stable or declining fertility.

Effects of demographic trends on population structure
The interplay of the demographic trends outlined above and associated economic and social changes has resulted in massive changes to the population structure. The key changes are noted below.

Changing household size and composition: The respective composition of families/households and living arrangements has undergone substantial changes.

- Australian households are becoming smaller. The average household size declined from 3.3 persons per household in 1976 to 2.6 in 1996 (ABS 2000c, pp. 100–1).
- The proportion of single-person households has increased from 15.7 per cent in 1976 to 24.0 per cent in 1999.
- The proportion of all families that are one-parent families with dependent children increased from 6.5 per cent in 1976 to 9.9 per cent in 1996, while the proportion of couple families with children declined from 59.5 to 49.6 per cent over the same period.
- In contrast, the proportion of couple-only families increased from 28.0 to 34.1 per cent.

The changes in age structure are highlighted in the graphs of age structures below.

Population age structures: The interplay of fertility, mortality and net migration has radically changed the profile of the Australian population from that of a ‘young’ population in 1961 to that of an ‘older’ population in 2021, as illustrated in Figure 1. Three time periods are selected to depict the major phases of the Australian demographic transition. These are 1961, representing the period of peak baby-boom fertility; 1991, representing a period of low fertility and a transition of the large baby-boom cohorts to adult ages; and 2021, which represents an older age structure that is heavier at the middle-to-old age ranges,

The 1961 pyramid shows a typical pyramid with a broad base made up of the 0–14 age groups born during the baby boom (1947–61), and a trough in the 15–34 age groups, representing the lower fertility of the 1927–1946 period. The 1991 and 2021 age structures show the progressive narrowing of the base offset by the conspicuous bulging of adult persons in 1991, and the relative expansion for older persons in 2021 in a much more even proportionate share.

Of importance to the estimation of future working-age income support is the decline of the share of the 15–44 age groups by 2021 relative to 1991. Future Age Pension outlays will be affected by the large increase in the share of the 65 and over population in 2021 relative to 1991. The age structures particularly show the ever-increasing proportion of the 75-year-old and over population.

Another salient feature is the lessening child burden, as their share is increasingly declining. Thus one key interpretation of the Australian demographic trends reviewed here—and this has implications for income support expenditure—is that while age dependency is rising, child dependency is falling.
Figure 1  Age–sex structures: Australia, 1961–2021

1961

1991

2021

Australian Social Policy  2001–02
Population structure: a comparative perspective

These demographic trends for Australia can be compared with those of other nations. The broad outlines of future demographic trends for Australia, the United States, Japan and the 15 European Union member states (EU15) are presented in a comparative population structure projection by broad age groups in table 3. These projected population structures are mainly driven by fertility trends, exacerbated by improving survival and health of the population, particularly the elderly.

A number of contrasts can be seen; though Australia had a similar age structure to the United States in 2000, in 2050 it will have an older population than the United States because of its lower fertility. Only the United States continues to have a significantly ‘younger’ population.

Table 3 shows that the proportion of the 65 and over population in 2050 will be 20 per cent in the United States, 26 per cent in Australia, 28 per cent in the EU15 and 32 per cent in Japan. Like the United States, Australia will have a relatively higher share of working-age population. In comparison to Australia and the United States, Japan and EU15 will experience a larger drop in the proportion of their working-age populations. The proportions of children in all these countries other than the United States in 2050 will be much lower and the gaps between countries narrower.

A further feature of table 3 is that while the total populations of Australia and the United States are projected to increase throughout the period, the population of Japan would decline after 2005 and EU15 after 2022.

Table 3  Age structure and population for selected countries, 2000–2050

<table>
<thead>
<tr>
<th>Year/country</th>
<th>Per cent of total population in age group</th>
<th>Total dependency ratio</th>
<th>Population (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0–14 years</td>
<td>15–64 years</td>
<td>65 years &amp; over</td>
</tr>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2050</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source:
Compiled and calculated from: For Australia (ABS 2000a), Europe is Eurostat, USA (Census Bureau 2001, p. 13, 15) and Japan (Statistics Bureau 2002). The latest Australian data refer to 2051.

As table 3 shows, total dependency ratios (ratios of number of children under 15 and older persons aged 65 years and over per 100 working-age persons times 100)
will rise substantially between 2000 and 2050. This is strongly driven by age dependency ratio, which would increase from 18.3 to 43.8 aged dependants per 100 working age persons in Australia, 24.2 to 48.8 in EU15, 25.9 to 59.1 in Japan, and 18.8 to 33.9 in the United States. By contrast child dependency ratios would decline from 30.5 to 24.1 in Australia and 25.3 to 24.3 in EU15. However, it would increase from 21.5 to 23.9 in Japan and 32.4 to 33.0 in the United States, owing to larger declines in the share of the working age population relative to children.

3. Patterns of income support

This section considers the derivation of the age and sex specific ratios of receipt of income support that are used in the projections. This analysis is undertaken in four stages.

First, the sex profile of the working-age income support recipients according to income support groups is described. Calculation and analysis of age–sex specific benefit rates for each income support group follow this. Second, the combined age–sex profile of age pensioners and Department of Veterans’ Affairs (DVA) service pensioners are described. Third, the working-age income support recipients are combined with the age and service pensioners by age and sex groups to describe the age and sex profile of total income support recipients.

Current number of working-age income support recipients and age-specific rates of receipt

Taxonomy of recipients: The source of FaCS income support data for the projection is FaCS’s individual administrative customer data for June 2001. The DVA supplied the age–sex profile of service pensioners and Income Support Supplement clients for June 2001. From this data a cross-tabulation of benefit groups by five-year age–sex groups was produced. The data are grouped into main programs such as the working-age income support groups and Age and Service Pension.

The structure of a number of income support payments is undergoing change. In particular, the Wife Pension, Partner Allowance, Widow Allowance and Widow B Pension are to be phased out. Age Pension for women aged less than 65 years will be phased out after 1 July 2013, as the qualification age will then be 65 years, after rising by half a year every two years from 60 years in 1 July 1995.

Because of these changes, Partner and Widow Allowances have been attributed to the unemployed; Wife Pension, Widow B Pension and Age Pension for women aged less than 65 years have been combined with the ‘Other’ group. The DVA Service Pension and Income Support Supplement recipients under the age of 65 years are also included in the ‘Other’ group, as they substitute for other categories of income support. ABSTUDY is excluded because of lack of data. Family assistance is not included in the analysis, as projected declining child dependency ratio means there would be less cost pressures coming from expenditure on family assistance.
One way to classify the main income support groups is as follows:

- **Unemployed (Newstart Allowance, Youth Allowance, Newstart Mature Age Allowance, Partner Allowance and Widow Allowance)**
- **Students (Youth Allowance and Austudy)**
- **Parenting Payment (Single)**
- **Parenting Payment (Partnered)—PPN, Low, NSS and DYAP**
- **Disability Support Pension (including Sickness Allowance and Special Benefit)**
- **Age and Service Pension**
- **Other (Carer Payment, Wife Pension, Widow B Pension, Other Pensions / Benefits, Age Pension for women under 65 years, DVA Service Pension and Income Support Supplement recipients under the age of 65).**

**Number of working-age clients:** The numbers of clients in each of these working-age income support groups according to subprogram type and sex are presented in table 4. As is seen from table 4, there was a total of 2,861,900 working-age income support recipients including 174,100 female age pensioners under 65 years of age. These working-age income support recipients represented 63.7 per cent of the total 4,495,000 FaCS clients aged 15 years and over.

Overall 57.7 per cent of working-age FaCS income support recipients were females. This is because of:

- the lower likelihood of older females, and females in general, than males having private superannuation
- earlier access by women to the Age Pension
- the 'older' age profile of the working-age female population
- access by males to the DVA Service Pension
- the greater propensity of women to have custody of children upon marriage breakdown, and to combine this with income support
- access by women to a range of (mostly closed or restricted) non activity tested income support payments (Widow Allowance, Age Pension, Wife Pension and Widow B Pension)
- the impacts of lower educational attainment and training as well as broken career paths amongst older segments of the female population, which limit their scope for economic participation.
Table 4  Numbers of working-age income support recipients by income support groups and sex: FaCS clients, June 2001 (a)

<table>
<thead>
<tr>
<th>Income support group</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>% Females</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unemployed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newstart Allowance</td>
<td>445 888</td>
<td>175 681</td>
<td>621 569</td>
<td>28.3</td>
</tr>
<tr>
<td>Youth Allowance</td>
<td>51 171</td>
<td>39 523</td>
<td>90 694</td>
<td>43.6</td>
</tr>
<tr>
<td>CDEP</td>
<td>19 015</td>
<td>12 671</td>
<td>31 686</td>
<td>40.0</td>
</tr>
<tr>
<td>Newstart Mature Age Allowance</td>
<td>36 997</td>
<td>2 441</td>
<td>39 438</td>
<td>6.2</td>
</tr>
<tr>
<td>Partner Allowance</td>
<td>7 564</td>
<td>81 714</td>
<td>89 278</td>
<td>91.5</td>
</tr>
<tr>
<td>Widow Allowance</td>
<td>33 250</td>
<td>33 250</td>
<td>66 500</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>560 635</td>
<td>345 280</td>
<td>905 915</td>
<td>38.1</td>
</tr>
<tr>
<td><strong>Students</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth Allowance</td>
<td>146 103</td>
<td>172 782</td>
<td>318 885</td>
<td>54.2</td>
</tr>
<tr>
<td>Austudy</td>
<td>24 925</td>
<td>17 882</td>
<td>42 807</td>
<td>41.8</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>171 028</td>
<td>190 664</td>
<td>361 692</td>
<td>52.7</td>
</tr>
<tr>
<td><strong>Parenting Payment Single</strong></td>
<td>32 410</td>
<td>392 151</td>
<td>424 561</td>
<td>92.4</td>
</tr>
<tr>
<td><strong>Parenting Payment Partnered</strong></td>
<td>21 330</td>
<td>195 272</td>
<td>216 602</td>
<td>90.2</td>
</tr>
<tr>
<td><strong>Disability Support Pension/ SKA/ SB</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability Support Pensioners</td>
<td>389 790</td>
<td>231 374</td>
<td>621 164</td>
<td>37.3</td>
</tr>
<tr>
<td>Sickness Allowance</td>
<td>7 722</td>
<td>3 535</td>
<td>11 257</td>
<td>31.4</td>
</tr>
<tr>
<td>Special Benefits</td>
<td>4 165</td>
<td>2 811</td>
<td>6 976</td>
<td>40.3</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>401 677</td>
<td>237 720</td>
<td>639 397</td>
<td>37.2</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carer Payment</td>
<td>21 371</td>
<td>34 541</td>
<td>55 912</td>
<td>61.8</td>
</tr>
<tr>
<td>Wife Pension</td>
<td>76 318</td>
<td>76 318</td>
<td>152 636</td>
<td>100.0</td>
</tr>
<tr>
<td>Widow B Pension</td>
<td>5 448</td>
<td>5 448</td>
<td>10 900</td>
<td>100.0</td>
</tr>
<tr>
<td>Other Pensions / Benefits</td>
<td>1 499</td>
<td>392</td>
<td>1 891</td>
<td>20.7</td>
</tr>
<tr>
<td>Age Pension (Age)</td>
<td>174 136</td>
<td>174 136</td>
<td>348 272</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>22 870</td>
<td>290 835</td>
<td>313 705</td>
<td>92.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 209 950</td>
<td>1 651 922</td>
<td>2 861 872</td>
<td>57.7</td>
</tr>
</tbody>
</table>

(a) Note that these numbers are derived from Supercross tabulation of Centrelink’s Populations 2001 Quarter 2 version 3.

Age–sex-specific benefit rates: By accepting as a basis the age–sex structures of each income support group and the estimated resident population by age–sex groups as of June 2001, age–sex specific benefit rates were calculated. The detailed results are presented in Appendix A.

Of all males aged 15–64 years, the overall proportions that received income support were:

- less than 1 per cent received Parenting Payments and ‘Other’
- 2.6 per cent received student payments
6.1 per cent received Disability Support Pension/ Sickness Allowance/ Special Benefit
8.5 per cent received unemployment-related payments.
The percentage of working-age females in receipt of income support were:
between 3 and 4 per cent received student payments, Parenting Payment Partnered and Disability Support Pension/Sickness Allowance/Special Benefit
5.3 per cent received unemployment-related payments
6.1 per cent received sole parent payments.

An examination of the age–sex specific benefit rates by income support groups shows some distinct age–sex pattern of benefit receipt. The unemployment benefit rates are highest in the 20–24 age group and decline with age thereafter. For sole parent payments, particularly for females, the rates rise with age from 1.6 per cent in the 15–19 age group until they peak at 9 to 11 per cent in the 25–39 age group. Thereafter they decline to reach very low rates. The pattern for the Parenting Payment (partnered) is also similar. For Disability Support Pension, the rates rise with age from relatively low levels at younger ages. In the case of males, the rates rise from 1 to 3 per cent under the age of 35 to reach high levels in the 55–59 and 60–64 age groups (13.9 and 24.1 per cent respectively).

For Age Pension for women aged 61.5 to 64 years, 64.1 per cent received a pension in 2001. This rose by age from 53.4 per cent at age 61.5 years to 69.4 per at age 64 years. The impact of this on projections is considered in Part 4.

Numbers of age and service pensioners and age–sex specific age pension receipt rates
Age and DVA service pensioners aged 65 years and over in June 2001 numbered 1 948 400; of whom women comprised 57.4 per cent.

Of these, 684 500 males and 1 101 400 females were age pensioners, while 146 200 males and 190 500 females were DVA service pensioners.
The numbers and proportions of pensioners by age–sex groups are presented in table 5. Of those aged 65 years and over, 81 per cent received Age and Service Pension in June 2001 (78 per cent of males and 83 per cent of females). The rates for males rose from 72 per cent in the 65–69 age group to 83 per cent in the 75–79 age group and thereafter declined marginally to reach 80 per cent in the 85+ age group. While the rates for females consistently rose from 78 per cent in the 65–69 age group to 87 per cent in the 85+ age group.
Table 5  Numbers and proportions of pensioners by age–sex groups: June 2001

<table>
<thead>
<tr>
<th>Age group</th>
<th>Number of pensioners</th>
<th>Proportion of population in receipt of pension (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>65–69</td>
<td>235 845</td>
<td>268 178</td>
</tr>
<tr>
<td>70–74</td>
<td>24 479</td>
<td>275 336</td>
</tr>
<tr>
<td>75–79</td>
<td>184 438</td>
<td>246 433</td>
</tr>
<tr>
<td>80–84</td>
<td>104 371</td>
<td>170 669</td>
</tr>
<tr>
<td>85 +</td>
<td>65 503</td>
<td>157 152</td>
</tr>
<tr>
<td>Total</td>
<td>830 636</td>
<td>1 117 768</td>
</tr>
</tbody>
</table>

Age–sex profile of total income support recipients

The data in each of the preceding two sections plus the relatively small number of customers over the age of 65 years of age that did not receive Age Pension can be combined to derive a profile of income support receipt across all programs and all age groups.

Age-specific receipt rates across the population exhibit a relatively distinctive pattern, as illustrated in table 6 and figure 2. They decline from moderate rates of receipt among young people to lower rates in most middle age groups and then rise rapidly amongst older age groups. Female rates are consistently above those of males across all age groups.

The make-up of the population aged 15 years and over that received income support in June 2001 was 36 per cent of females, 27 per cent of males and 32 per cent of the total. These figures for the working-age population were 26, 19 and 22 per cent. Among the population aged 65 years and over, 84 per cent of females, 79 per cent of males and 82 per cent of the total received income support.

The age-specific ratios of female to male rates of receipts were proportionately greatest for the 30–44 year age band, where they were 42 to 54 per cent higher than that of males. They were also 44–58 per cent higher in the 55–64 age band. The ratios for the 45–54 age group was relatively low, 30 to 33 per cent higher than that of males. Male rates were closer to female rates only at 65 years and over, being 3 to 9 per cent lower than that of females.
Table 6  Total income support recipients and age–sex specific benefit rates (FaCS and DVA clients): June 2001

<table>
<thead>
<tr>
<th>Age</th>
<th>Number of recipients</th>
<th>Rates of benefit receipt %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>15–19</td>
<td>144 741</td>
<td>164 831</td>
</tr>
<tr>
<td>20–24</td>
<td>154 477</td>
<td>182 922</td>
</tr>
<tr>
<td>25–29</td>
<td>120 671</td>
<td>157 923</td>
</tr>
<tr>
<td>30–34</td>
<td>110 039</td>
<td>165 830</td>
</tr>
<tr>
<td>35–39</td>
<td>111 203</td>
<td>172 109</td>
</tr>
<tr>
<td>40–44</td>
<td>106 924</td>
<td>155 858</td>
</tr>
<tr>
<td>45–49</td>
<td>97 808</td>
<td>127 426</td>
</tr>
<tr>
<td>50–54</td>
<td>108 330</td>
<td>140 874</td>
</tr>
<tr>
<td>55–59</td>
<td>116 405</td>
<td>162 172</td>
</tr>
<tr>
<td>60–64</td>
<td>157 480</td>
<td>245 287</td>
</tr>
<tr>
<td>65–69</td>
<td>240 083</td>
<td>273 457</td>
</tr>
<tr>
<td>70–74</td>
<td>243 427</td>
<td>278 502</td>
</tr>
<tr>
<td>75 +</td>
<td>185 871</td>
<td>248 398</td>
</tr>
<tr>
<td>75–79</td>
<td>104 963</td>
<td>171 581</td>
</tr>
<tr>
<td>80–84</td>
<td>65 780</td>
<td>157 817</td>
</tr>
<tr>
<td>85 +</td>
<td>58 186</td>
<td>144 625</td>
</tr>
<tr>
<td>Total</td>
<td>2 068 202</td>
<td>2 804 987</td>
</tr>
</tbody>
</table>

15–64   | 1 228 078 | 1 672 232 | 18.65 | 25.86 |
65 +    | 840 124  | 1 129 755 | 79.26 | 84.17 |

Figure 2  Age-and sex specific benefit rates, 2001
Changes in age-specific rates of receipt over time

The methodology of this paper uses constant rates of receipt as a basis of its projections so that the demographic component of change can be identified. Changes in the rate of receipt can have two impacts:

- a direct impact on the numbers of recipients at any point in time
- the impact on recipients’ profile. That is, if changes in rates of receipt affect age patterns of receipt, this will more directly interact with the demographic trends for the different age cohorts.

Thus while changes in rates of receipt, which affect the population as a whole, will produce results that differ from these estimates in a relatively consistent manner, changes in the pattern of rates of receipt will have a much more significant impact on the nature of the results.

Given this, it is useful to consider the degree of stability in rates by age over time. This can be seen in figure 3.

In general terms, it can be concluded that while there have been some changes in the age pattern of receipt over the nine year time-period, the overall shape of the distribution has been maintained. Specific changes include:

- a fall in the rate of receipt among youth, and to a much lesser extent among young adults
- an increase in the rate of receipt among middle aged persons, especially in the 35–39 and the 40–44 age groups.

Figure 3  Age-specific benefit rates, 1992 and 2001
4. Projections of income support

This section brings together the demographic trends seen in Part 2 and the income support recipient data in Part 3 to consider projections of income support recipients. It does so in two steps, firstly working age population clients (mostly FaCS) and secondly age and service pensions.

Projection results of working-age income support

As noted above the initial focus is on projections of the numbers of working-age income support recipients—that is, the population aged between 15 and 64 years. The projection results are presented in Appendix B. They are based on ABS Series II population projections (Table 1) and constant age–sex specific rates of receipt, for each income support group for both sexes combined according to age. The results show the impact of demographic change on the number of working age income support recipients. On this basis the number would grow strongly in the 2001–11-projection period from 2,903,000 to 3,348,700. This represents an average annual growth rate of 1.43 per cent. However, growth will slow down to 0.50 per cent a year between 2011 and 2021, although the absolute numbers would increase to 3,521,300 in 2021. Thereafter, the numbers would stabilise, around 3.6 million in 2051.

The working-age income support growth by broader age groups is summarised as follows:

- **The 15–34 age group**: The number of income support recipients in this age group will show a small increase from 1,201,400 in 2001 to 1,232,200 in 2011 and 1,239,800 in 2021 and decline to 1,216,200 by 2051. These figures hardly represent any growth.

- **The 35–49 age group**: The number of recipients in this age group will marginally increase from 771,200 in 2001 to 820,500 in 2011 and 828,800 in 2021, peaking at 851,200 in 2031 and declining to 816,800 in 2051. These figures represent growths of 0.62 per cent between 2001 and 2011, 0.10 per cent between 2011 and 2021 and 0.27 per cent between 2021 and 2031.

- **The 50–64 age group**: This age group shows the strongest growth, from 930,500 in 2001 to 1,296,000 in 2011, 1,452,800 in 2021 and 1,559,800 in 2051. This group will experience growths of 3.31 per cent a year between 2001 and 2011 and 1.14 per cent between 2011 and 2021 and 0.24 per cent between 2021 and 2051.

Key features by support group within this growth indicate:

- **Student payments**: the number of students receiving Youth Allowance and Austudy will increase modestly, from 361,700 to 375,600 between 2001 and 2011, and thereafter decline slightly to 366,300 in 2021 and 362,200 in 2051.

- **Sole parent payments**: The number receiving Sole Parent Pension payments will increase moderately from 392,200 in 2001 to 407,100 in 2011 and 413,500 in 2021, and will decline to 405,200 in 2051.
- **Parenting payments**: There will be small increases in parenting payments from 216,600 in 2001 to 225,300 in 2011 and 229,500 in 2021, with a decline to 225,000 in 2051. The average annual growth rate between 2001 and 2021 will be 0.29 per cent.

- **Disability Support Pension**: this group shows the strongest growth of 2.0 per cent a year, growing from 639,400 pensioners in 2001 to 778,200 in 2011. It would grow to 834,500 in 2021 and 870,200 in 2051. Growth after 2011 will, however, slow down to an annual average 0.70 per cent between 2011 and 2021 and 0.14 per cent between 2021 and 2051. Commentators suggesting that current high rates and growths of DSP may include hidden unemployment have put a number of arguments forward. This may have contributed to some extent to the observed significant drop in unemployment (see following point) and the future decline assumed in the analysis in section 4.2 of this paper.

- **Unemployment-related**: Simply assuming a constant rate of receipt numbers indicates that the young unemployed receiving Newstart and Youth Allowances plus those on Newstart Mature Age Allowance, Partner Allowance and Widow Allowance would increase from 906,300 in 2001 to 1,024,700 in 2011, 1,070,600 in 2021 and 1,087,300 in 2051.

While these numbers reflect the effect of demographic trends on customer numbers, the actual number of recipients will be driven primarily by economic circumstances. In this regard, it should be noted that between March 1996 and June 2002, notwithstanding demographic effects, the number of people on unemployment-related payments, that is, Newstart and Youth Allowance for the unemployed, fell by 25.5 per cent (221,700), from 868,500 to 646,800. This is due to the strong economic growth since 1996 that has driven unemployment rate down.

**Alternative projections**
The above results are based on the application of fixed age–sex specific rates of income support receipt according to income support groups. This section explores what happens to future numbers of recipients if alternative projections are made based on different population projection assumptions or changing age–sex specific rates of income support. This section looks at each issue in turn.

**Alternative population growth assumptions**: The above results hold if the combination of both TFR declining from 1.75 to 1.60 children per woman by 2008 and remaining constant thereafter and a net annual migration of 90,000 materialise. What happens if higher fertility—say TFR of 1.75—prevails throughout the projection period, and is combined with a higher net annual migration of 110,000, that is, if ABS Population Projections Series 1 materialises?

The results were re-calculated using these assumptions. The effect of such assumptions, as compared to the baseline projections, that is, ABS Series II, is to increase the working-age benefit recipients (15–64 years) by 92,500 in 2021, 188,800 in 2031 and 375,200 in 2051. The effect of higher fertility on the
The 15–44 age groups (age groups directly affected) is to increase their size by 68,900 in 2021, 139,800 in 2031 and 272,100 in 2051.

However, what if ABS Series III materialises, that has a similar fertility assumption as the baseline projection (ABS Series II) with a lower net annual migration of 70,000? The effect is to reduce the size of the working-age benefit recipients by 74,800 in 2021, 122,400 in 2031 and 207,600 in 2051. The corresponding reductions for the 15–44 age group would be 51,500, 74,000 and 117,000.

It is clear that the effect of higher fertility is substantial in the time scale being considered here. However, as the same low fertility assumption is used by the ABS for both Series II and III, the effect of a much lower fertility—as is seen, say, in some very low-fertility countries—is not demonstrated here. Nevertheless, if fertility were to decline to below 1.6, and cover a longer time span, then it would have deeper impacts in cutting the size of working-age benefit recipients.

It is possible though that such a change in fertility may have more powerful effects when applied to other indices. Dynamic modelling, which would make the estimates sensitive to the number of children in families, may show more complex responses, for example in sole parent and parenting payments. In addition, changing fertility assumptions have an impact on overall dependency ratios.

**Sensitivity analysis based on variable rates of receipt**

As indicated, the focus of this paper is on the impact of demographic change on the number of income support recipients. To enable this effect to be seen clearly, constant rates of receipt have been used in the projections. It is, however, recognised that these rates are sensitive to a wide range of economic and social factors. Some of these may be structural changes reflected in long-term trends, while others may be cyclical—for example the impact of business cycles.

This section considers the sensitivity of the projections to changes in the rate of receipt. This approach is applied on selected income support groups, that is, unemployment-related recipients, Sole Parent Pension recipients and Disability Support Pensioners. It is emphasised that this analysis seeks only to provide an insight into the sensitivity of the projections. It does not attempt to suggest alternative scenarios for the receipt of income support.

The sensitivity analyses for each of the selected income support groups are as follows:

**Unemployed:** The seasonally adjusted unemployment rate at June 2001 was 6.9 per cent. Although there is no one-to-one correspondence between the number of unemployment benefit recipients and the number of unemployed persons, an implicit assumption is that an unemployment rate of 6.9 per cent resulted in the number of people that received unemployment benefits in June 2001. The baseline projection assumed that the June 2001 age–sex specific rates of unemployment benefit receipt rates that corresponded to unemployment rate of 6.9 per cent remained constant. However, two alternative scenarios were also considered to
test the sensitivity of the projections. In the first scenario, all age-specific rates were adjusted upwards to rates consistent with an unemployment rate of 10 per cent (making relativity between age–sex groups). In the second, all age-specific rates were adjusted downwards to an unemployment rate of 5 per cent. Thus two sets of age-specific benefit rates were calculated that implied unemployment rates of 5 and 10 per cent instead of the 6.9 per cent. Once these sets of rates were calculated they were assumed to apply to a point in time in 2006, 2021, 2031 and 2051.

_Sole parent and disability support groups:_ For these two groups an alternative projection is undertaken by extrapolating the historical age–sex specific growth rate patterns observed over the 1989 through 2001 period, based on a best fitting curve for each age–sex group. Based on the fitted curves, projected age-specific rates of receipt were calculated for 2006, 2011, 2021, 2031 and 2051. These projected age–sex specific rates were then multiplied by the ABS Series II projected age–sex population for the corresponding years to derive future numbers of Sole Parent Pensions and Disability Support Pension recipients.

The sensitivity analyses resulted in two projection series for the unemployed: low and high. The high series are derived from increasing the unemployment rate to 10 per cent and the low series combines an unemployment rate of 5 per cent.

The detailed alternative projections, based on the low and high series for the unemployed and the extrapolation of the age–sex rates of receipt series for Sole Parent Pension and Disability Support Pension according to age and sex are presented in Appendices C, D and E. The key results are as follows:

_Unemployment related payments:_ Future recipient numbers, which were 906 300 in 2001, could vary from as low as 737 000 to 1 473 900 in 2011 (baseline 1 024 700), and 770 160 to 1 540 300 in 2021 (baseline 1 070 600). In 2051, they would range between 782 300 and 1 564 500, compared to a baseline of 1 087 300.

_Sole parent pensioners:_ Future numbers would grow from 424 600 in 2001 to 487 800 in 2006 (baseline 435 400), 570 400 in 2011 (baseline 441 400), 746 900 in 2021 (baseline 448 800), 927 400 in 2031 (baseline 449 000), and 1 312 200 in 2051 (baseline 440 300). The growth in both male and female Sole Parent Pension recipients would be very strong. Male numbers would double between 2001 and 2021, and increase by 77.1 per cent between 2021 and 2051. The figures for females would be 73.2 and 75.6 per cent.

_Disability support pensioners:_ Future numbers would grow from 639 400 in 2001 to 843 600 in 2011 (baseline 778 200), 980 300 in 2021 (baseline 834 500) and 1 186 400 in 2051 (baseline 870 200). Male recipients would grow by 52.7 per cent between 2001 and 2021 and 17.4 per cent between 2021 and 2051. Female growths would be much stronger at 54.3 and 27.1 per cent respectively.
The sensitivity analyses show that future numbers of working-age income support recipients would be larger than the baseline projection if higher fertility and net annual migration prevails. They also show that if levels of unemployment rate change markedly, as used in these scenarios, they would have enormous impacts on numbers of unemployment benefit recipients. With respect to Sole Parent Pension and Disability Support Pension, the alternative projections show massive future increases compared to baseline projections, particularly for sole parent pensioners.

In sum, the sensitivity analyses results show that future numbers of working-age income support customers could vary substantially from the projections if other factors change to influence take-up rates.

**Projection of total income support**

This section brings together the projections of working-age income support with those for the Age Pension and Service Pension in order to get a total picture of future income support. Thus, the projection in this section covers the entire range of income support groups for the population-aged 15 years and over. The total income support projections are prepared according to age and sex. First, an Age and Service Pension projection is considered.

**Projection of Age and Service pensioners:** The projection of aged pensioners is based on the assumption that the age–sex specific recipient proportions for June 2001, given in table 5, will continue to apply in 2006, 2011, 2021, 2031 and 2051 and are applied to ABS Population Projection Series II. The actual and the projected numbers of pensioners by age groups are set out in table 7.

<table>
<thead>
<tr>
<th>Age group</th>
<th>Actual ('000s)</th>
<th>2006</th>
<th>2011</th>
<th>2021</th>
<th>2031</th>
<th>2051</th>
</tr>
</thead>
<tbody>
<tr>
<td>65–69</td>
<td>504.0</td>
<td>579.2</td>
<td>707.7</td>
<td>964.3</td>
<td>1,081.2</td>
<td>1,138.0</td>
</tr>
<tr>
<td>70–74</td>
<td>515.8</td>
<td>512.1</td>
<td>592.1</td>
<td>935.4</td>
<td>1,099.0</td>
<td>1,157.1</td>
</tr>
<tr>
<td>75–79</td>
<td>430.9</td>
<td>458.1</td>
<td>460.0</td>
<td>666.5</td>
<td>924.7</td>
<td>1,107.7</td>
</tr>
<tr>
<td>80–84</td>
<td>275.0</td>
<td>338.4</td>
<td>364.8</td>
<td>438.6</td>
<td>711.8</td>
<td>914.2</td>
</tr>
<tr>
<td>85+</td>
<td>222.7</td>
<td>265.4</td>
<td>329.0</td>
<td>403.6</td>
<td>569.4</td>
<td>1,087.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,948.4</strong></td>
<td><strong>2,153.2</strong></td>
<td><strong>2,453.7</strong></td>
<td><strong>3,408.4</strong></td>
<td><strong>4,386.0</strong></td>
<td><strong>5,404.2</strong></td>
</tr>
</tbody>
</table>

The projection results in table 7 show a strong growth in age and service pensioner numbers from 1.9 million in 2001 to 2.5 million in 2011, 3.4 million in 2021 and 5.4 million in 2051. Future aged pensioner numbers would grow at an average annual rate of 2.3 per cent between 2001 and 2011, 3.3 per cent between 2011 and 2021, 2.5 per cent between 2021 and 2031 and 1.0 per cent between 2031 and 2051. Male numbers would grow much more strongly than female
numbers between 2001 and 2021, while growth for both sexes would be similar between 2021 and 2051. Males would grow from 830,600 in 2001 to 1,083,800 in 2011, 1,541,700 in 2021, 1,979,900 in 2031 and 2,449,600 in 2051. Females would grow from 1,117,800 in 2001 to 1,369,800 in 2011, 1,866,700 in 2021, 2,406,200 in 2031 and 2,954,600 in 2051. The growths between 2001 and 2021 would be 85.6 per cent for males and 67.0 per cent for females. Both males and females would each grow by 58 per cent between 2021 and 2051.

Projections of total income support: Projections of total income support are made here by combining working-age income support recipients, age and service pensioners and a relatively small number of customers aged 65 years and over who do not receive Age Pension because of they lack residence qualification or for other reasons.

The derived age–sex specific proportions of total income support recipients for June 2001, given in Table 6, were held constant for 2006, 2011, 2021, 2031 and 2051, and applied to the ABS projected population Series II.

The results of the projection of total income support numbers are displayed in figure 4 (see also Appendix F). In total, if the Series II Population Projection and constant age–sex specific rates of income support assumptions hold, income support recipients would increase from 4.9 million in June 2001 to 5.8 million in 2011, 7.0 million in 2021, 8.0 million in 2031 and 9.1 million in 2051. Income support recipients would increase by 43 per cent between 2001 and 2021 and 30 per cent between 2021 and 2051. Future male recipients would grow from 2,068,200 in 2001 to 2,499,400 in 2011, 3,029,000 in 2021 and 3,982,900 in 2051. Female customers would increase from 2,805,000 in 2001 to 3,330,600 in 2011, 3,939,700 in 2021 and 5,067,900 in 2051. While males show greater relative growths, the absolute increases are larger for females. While female customers increased by 1,134,700 between 2001 and 2021, males increased by 960,800 over the same period.

An interesting demonstration of the effect of demographic changes on income support is displayed in figure 4. This figure plots the projected total population for 2001, 2006, 2011, 2021, 2031 and 2051 and projected total benefit recipients for 2001, 2006, 2011, 2021, 2031 and 2051 by age groups. A salient result is that the future size of young and adult benefit recipients, in the 15–44-age range, will vary little during the projection period. This is mainly due to the rather constant future size of these age groups by age and projection period, which range between 1.3 and 1.6 million people in each five-year-age group (see the top population curves). However, large and contrasting differences in the size of future benefit recipients emerge starting in the 45–49 age group. This is due to the strong growth of the middle and older aged populations, as is evident from the widening gaps over time between the population curves for these age groups.
It is also important to recognise the temporality of the underlying population shifts in these age groups. The most notable and massive increases of the elderly customers will occur between 2001 and 2011, 2011 and 2021 and 2021 and 2031 for the 60–74 age groups; and after 2021 for those aged 75 years and over. The massive growth of the 85 and over pensioners will occur from 2021 onwards, particularly between 2031 and 2051.

These rapid customer growths will have implications for dependency ratios. The numbers of future total customers per 100 working-age persons would rise from 37.3 in 2001 to 40.3 in 2011, 46.4 in 2021, 52.9 in 2031 and 59.8 in 2051. The ratio of total male customers to 100 working-age males would rise from 31.4 in 2001 to 34.4 in 2011, 40.2 in 2021, 45.8 in 2031 and 52.1 in 2051. The figures for females would rise from 43.3 in 2001 to 46.2 in 2011, 52.5 in 2021, 60.1 in 2031 and 67.7 in 2051.

Growth in dependency ratios would be much stronger for aged pensioners than for working-age income support clients. The numbers of working-age clients per 100 working-age persons would grow from 22.2 in 2001 to 23.1 in 2011, 23.5 in 2021, 23.6 in 2031 and 23.7 in 2051. Females would have higher growth than males. The proportion of working-age females that would depend on income support would increase from 25.9 per cent in 2001 to 27.0 per cent in 2011, 27.5 per cent in 2021 and 27.9 per cent in 2051. The figures for males are 18.7, 19.3, 19.5 and 19.7 respectively.
The numbers of aged pensioners per 100 working-age persons would grow from 15.1 in 2001 to 17.1 in 2011, 23.0 in 2021, 29.4 in 2031 and 36.1 in 2051. The ratio of female age pensioners to 100 working-age females would grow strongly from 17.4 in 2001 to 19.2 in 2011, 25.3 in 2021, 32.5 in 2031 and 39.9 in 2051. The male figures are 12.8, 15.1, 20.7, 26.3 and 32.3 respectively.

5. Summary and implications

Projections undertaken in this paper, holding constant the June 2001 age–sex proportions of recipients and allowing only for the impact of demographic trends, show the number of working-age income support recipients growing from 2.90 million in 2001 to 3.52 million in 2021 and 3.59 million in 2051. This represents an increase of 21.3 per cent or 618 200 recipients over the 2001–21 periods. Growth would slow down to only 71 400 between 2021 and 2051.

However, this overall growth masks the different growth rates of the age groups comprising the working–age population. Future recipients in the 15–49 age group will grow slowly from 1.97 million in 2001 to 2.07 million in 2021, an increase of only 4.7 per cent or 96 000 recipients. By contrast recipients in the 50–64 age group will grow strongly from 930 500 in 2001 to 1 452 800 in 2021, representing an increase of 56.1 per cent or an absolute increase of 522 300 recipients. The ‘Other’ group (of which 90 per cent are females and whose payment type are to be phased out) and Disability Support Pension mainly contributed to this total growth—41 and 33 per cent respectively. However, from 2021 growth of this age group would slow down to reach 1 559 800 in 2051.

The strong growth of the 50–64 age group is surpassed by growth in numbers of age and service pensioners. The number of pensioners aged 65 years and over is projected to increase by 1 477 200 recipients from 1 969 900 in 2001 to 3 447 100 in 2021. This represents a strong growth of 75 per cent. The strong growth of this group would continue to reach 5 457 700 in 2051, representing an increase of 58.3 per cent between 2021 and 2051.

There is a gender dimension to the projected growth of recipients. For example, female customers would account for 53.1 per cent of the projected increase in the 15–49 age group. In the 50–64 age group, 62.4 per cent of the projected increase between 2001 and 2021 and 60.5 per cent between 2021 and 2051 are due to female recipients. In the 65 years and over age group, females would account for 51.3 per cent of the increase between 2001 and 2021 and 54.5 per cent between 2021 and 2051.

The projections suggest:

- there will be little change to the numbers of working-age income support recipients in the next 50 years, particularly among those aged 15–44 years. This is a consequence of the slow growth of the working-age population
Future increases in the working-age income support groups will be concentrated in the ‘immediate future’ between 2001 and 2011 and between 2011 and 2021 in the 50–64 age group, primarily due to their strong population growth as well as their higher rates of income support receipt.

In absolute and relative terms, most of income support growth will be concentrated in the 65 years and over population.

The temporality of the underlying population shifts needs to be recognised, as the different growth periods associated with particular age groups has planning implications. Growth will take place in the 50–64 age group between now and 2011 and to a lesser extent between 2011 and 2021; in the 65–74 age group between now and 2011, between 2011 and 2021 and between 2021 and 2031; in the 70–74 age group after 2011; and in the 75 and over population after 2021.

Each of these trends bring with it policy implications:

The underlying reduction in the proportion of prime working-age population, while suggesting little increase in recipient numbers, emphasises the need for this group to be well-equipped and supported to maintain its labour force participation.

The projected strong income support growth of the 50–64-year age group brings into policy focus the question of early withdrawal from the labour force. As in other industrialised countries, there has been a long-term decline in the rate of full-time employment of this group in Australia, particularly for males (Edey and Gower 2000, p. 21). However, since the mid-1990s the trend has stabilised for both male and female full-time employment rate. In the United States there has been a similar pattern among older persons aged 55 years and over since the mid-1980s, involving a stabilisation of male labour force participation rates and a rise in female rates. This represented an arrest and even a reversal in the long-term decline that has been evident since 1910 (Burtless and Quinn 2000).

Matching activity to the work capability and employment needs of this group can bring about stabilisation and even reversal in the decline of their labour force participation rate. Commentators have also suggested the possibility that policy responses in this regard could be strengthened to reduce the dissipation of superannuation lump sums and to encourage and support this group to work longer (OECD 1999; Kalisch 2000, pp. 12-15; Edey and Gower 2000, p. 21–22).

The strong growth in the numbers of persons 65 years and over projected to receive age or service pension support calls for a further comment. On the time scales 2001–21, it is probable that the large projected growth in retirement incomes from superannuation savings will not have a major impact on the number of income support recipients. It is, however, likely to have an impact on the level of expenditure, with increasing numbers of age pensioners having access to some superannuation and other savings, and resultant reductions in expenditures on a per capita basis with more part-rate and a lower proportion of full-rate pensioners.
As such, growth rates in numbers of male pensioners may not translate into expenditure growth rates.

However, the disproportionate growth in female customers aged 65 years and over will translate into huge retirement income expenditures. This is because older females are unlikely to have as much superannuation as males, because disproportionately few women now aged 50 years and over have had strong formal labour market attachment. Additionally their numbers contain many women who have been sole parents or divorced, and while some may have gained financially from divorce settlements, the bulk of them have not—indeed it is understood that most have precarious financial situations. It is only when women who are now aged 40 years or younger and who have had a strong labour force experience and a culture of private superannuation enter retirement age between 2021 and 2051 that women will accumulate sufficient superannuation.

Finally a caveat is in order. The results presented here demonstrated only the effects of underlying demographic change on future numbers of income support recipients, other factors remaining equal. But changing economic conditions and societal attitudes and behaviours towards welfare dependency and consequent policy changes are also important influences. Because it is difficult to account for these changes and their consequent effects, changes in age-specific rates of receipt or anticipated changes to payment structures are not attempted here except for the insights provided by the sensitivity analysis.

Specifically the outcomes presented are not ‘expected’ outcomes, but rather an estimate of what would occur if nothing else changed. However, if other factors change, the alternative projections undertaken here give some indication of the range of likely outcomes if variations in the age–sex specific take-up rates or population projection assumptions materialise.
### Appendix A:

**Proportions of recipients in age group according to income support groups and sex: FaCS clients aged 15–64 years, June 2001**

<table>
<thead>
<tr>
<th>Age</th>
<th>Unemployed</th>
<th>Students</th>
<th>Sole parents</th>
<th>Parenting partnered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>15–19</td>
<td>5.61</td>
<td>4.72</td>
<td>13.69</td>
<td>16.95</td>
</tr>
<tr>
<td>20–24</td>
<td>12.75</td>
<td>7.40</td>
<td>6.62</td>
<td>8.40</td>
</tr>
<tr>
<td>25–29</td>
<td>11.14</td>
<td>4.16</td>
<td>1.82</td>
<td>1.51</td>
</tr>
<tr>
<td>30–34</td>
<td>9.37</td>
<td>2.65</td>
<td>0.84</td>
<td>0.52</td>
</tr>
<tr>
<td>35–39</td>
<td>8.27</td>
<td>2.43</td>
<td>0.54</td>
<td>0.29</td>
</tr>
<tr>
<td>40–44</td>
<td>7.12</td>
<td>3.16</td>
<td>0.35</td>
<td>0.25</td>
</tr>
<tr>
<td>45–49</td>
<td>6.33</td>
<td>4.97</td>
<td>0.23</td>
<td>0.22</td>
</tr>
<tr>
<td>50–54</td>
<td>6.12</td>
<td>8.16</td>
<td>0.12</td>
<td>0.12</td>
</tr>
<tr>
<td>55–59</td>
<td>6.78</td>
<td>12.80</td>
<td>0.06</td>
<td>0.05</td>
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<tr>
<td>60–64</td>
<td>12.52</td>
<td>6.15</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>Total</td>
<td>8.52</td>
<td>5.33</td>
<td>2.60</td>
<td>2.94</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>DSP/ SP /SKA</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>15–19</td>
<td>1.38</td>
<td>0.96</td>
<td>0.04</td>
</tr>
<tr>
<td>20–24</td>
<td>2.19</td>
<td>1.62</td>
<td>0.07</td>
</tr>
<tr>
<td>25–29</td>
<td>2.62</td>
<td>1.79</td>
<td>0.12</td>
</tr>
<tr>
<td>30–34</td>
<td>3.35</td>
<td>2.07</td>
<td>0.20</td>
</tr>
<tr>
<td>35–39</td>
<td>4.26</td>
<td>2.52</td>
<td>0.29</td>
</tr>
<tr>
<td>40–44</td>
<td>5.12</td>
<td>3.34</td>
<td>0.36</td>
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<tr>
<td>45–49</td>
<td>6.23</td>
<td>4.62</td>
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<td>50–54</td>
<td>8.22</td>
<td>7.02</td>
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<tr>
<td>55–59</td>
<td>13.92</td>
<td>11.01</td>
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<tr>
<td>60–64</td>
<td>24.07</td>
<td>4.71</td>
<td>0.98</td>
</tr>
<tr>
<td>Total</td>
<td>6.10</td>
<td>3.67</td>
<td>0.35</td>
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</table>
### Appendix B:

Projection of ‘working-age’ income support recipients by age and income support groups, based on constant age–sex specific rates of receipt: 2001–51

<table>
<thead>
<tr>
<th>Age</th>
<th>Unemployed (‘000s)</th>
<th>Students (‘000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15–19</td>
<td>70.5</td>
<td>71.5</td>
</tr>
<tr>
<td>20–24</td>
<td>140.1</td>
<td>144.0</td>
</tr>
<tr>
<td>25–29</td>
<td>111.6</td>
<td>109.3</td>
</tr>
<tr>
<td>30–34</td>
<td>87.8</td>
<td>91.0</td>
</tr>
<tr>
<td>35–39</td>
<td>79.0</td>
<td>80.6</td>
</tr>
<tr>
<td>40–44</td>
<td>75.8</td>
<td>77.4</td>
</tr>
<tr>
<td>45–49</td>
<td>76.9</td>
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<td>50–54</td>
<td>91.7</td>
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<tr>
<td>55–59</td>
<td>97.3</td>
<td>124.8</td>
</tr>
<tr>
<td>60–64</td>
<td>75.6</td>
<td>91.9</td>
</tr>
<tr>
<td>Total</td>
<td>906.3</td>
<td>972.1</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>Sole Parents (‘000s)</th>
<th>Parenting Payment Partnered (‘000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15–19</td>
<td>10.6</td>
<td>10.8</td>
</tr>
<tr>
<td>20–24</td>
<td>48.5</td>
<td>50.0</td>
</tr>
<tr>
<td>25–29</td>
<td>73.4</td>
<td>71.5</td>
</tr>
<tr>
<td>30–34</td>
<td>86.0</td>
<td>88.5</td>
</tr>
<tr>
<td>35–39</td>
<td>89.4</td>
<td>91.3</td>
</tr>
<tr>
<td>40–44</td>
<td>69.8</td>
<td>71.5</td>
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<td>45–49</td>
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<td>55–59</td>
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<tr>
<td>60–64</td>
<td>0.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>424.6</td>
<td>435.4</td>
</tr>
</tbody>
</table>
Appendix B continued:

<table>
<thead>
<tr>
<th>Age</th>
<th>DSP/SP/ SKA ('000s)</th>
<th>Total recipients ('000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15–19</td>
<td>16.0</td>
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<tr>
<td>Total</td>
<td>639.4</td>
<td>716.7</td>
</tr>
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</table>

Note: The difference between the sum of the income support groups and total recipients gives the 'Other' income support group, not shown here, which increased from 354 900 in 2001 to 571 600 in 2021 and 607 800 because it comprises groups mainly aged 50–64 years. It includes 174 000 women age-pensioners aged 61.5–64 years in 2001, 138 000 aged 67.5–64 years in 2006 and 80 000 aged 64 years in 2011.
### Appendix C:

**Alternative projections for selected income support groups by sex–age groups:**

**unemployment related**

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Low Series ('000s)</th>
<th>High Series ('000s)</th>
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<td><strong>Total</strong></td>
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<td><strong>Total</strong></td>
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Appendix D:

**Alternative projections for selected income support groups by sex–age groups: Sole Parent Pensioners**

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<th>Actual</th>
<th>Projected</th>
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<td>0.1</td>
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Appendix E:

Alternative projections for selected income support groups by sex-age groups: Disability Support Pensioners

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### Appendix F:

#### Projected numbers of total benefit recipients by age–sex groups based on constant age–sex specific rate of receipt: 2001–2051

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Appendix F continued:

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</table>
Endnotes

1 The author wishes to thank Rob Bray, James Jordan, Serena Wilson and the referees involved for their valuable comments.

2 The recent experience suggests that it is closer to the high migration assumption.

3 Total fertility rate is the average number of births a woman would have during her reproductive life if she experiences at each age the age-specific fertility rates prevailing in a particular year.

4 Replacement-level fertility is the number of births required to replace a woman and her partner in a generation under current fertility and mortality conditions. For Australia, now it is 2.06 children.

5 The higher fertility rates for these two populations reflect the presence of significant minority populations that have higher fertility than their mainstream society, particularly the USA (the Hispanics, American Indians and African Americans).

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— 2000b, Births 1999, Australia, cat no. 3301.0
— 2000c, 2000 Year Book Australia, cat no. 1301.0
— 2000d, Migration 1998–99, cat no. 3412.0
— 2001, Deaths 2000, Australia, cat no. 3302.0


The Household, Income and Labour Dynamics in Australia (HILDA) survey: an introduction

Nicole Watson and Mark Wooden

Melbourne Institute of Applied Economic and Social Research, University of Melbourne

1. Introduction

Most industrial nations now conduct large-scale, representative panel (that is, longitudinal) surveys of households and the members of those households. Australia, however, is a notable exception. While longitudinal data collections do exist in Australia, they typically focus on relatively small sub-groups of the population. Included here, for example, are the Longitudinal Surveys of Australian Youth (LSAY), which follow samples of young people; the Longitudinal Survey of Immigrants to Australia (LSIA), which is restricted to recent immigrant arrivals, the Survey of Employment and Unemployment Patterns (SEUP), which had a focus on jobseekers, and the Australian Longitudinal Survey of Women’s Health (ALSWH), which follows three female age cohorts. Moreover, with the exception of the ALSWH, these surveys were all deliberately designed as relatively short-life panels. For example, the SEUP covered just four years while the first LSIA cohort was followed over a three- to four-year period. Furthermore, the focus in all of these surveys is on individuals rather than households and hence the data collected do not allow individual respondents to be linked to data on other related individuals. Even the Negotiating the Life Course Study, which began in 1997 and has a focus on family dynamics, conducts interviews with only one person per household (though information about other household members is collected).

Australian policy-makers and researchers thus do not have access to data that are both representative of the Australian population (or at least a significant proportion of it) and provide information on the dynamic nature of events and how they interact in influencing the changing behaviour and fortunes of Australian households, families and individuals. This has been consistently identified as a major problem in reviews of policy-relevant research literature in areas such as labour market research and social policy (for example, Creedy 1994; Barr 1999, pp. 22–23; Norris and Wooden 1996, p. 107; Richardson 1978; Wooden 1997, pp. 262–63).

Assessing the extent of poverty in Australia, for example, has long been plagued by the problem that income varies over the life cycle and hence at any particular point in time, households and individuals may appear income poor, even though this would not appear to be reflected in their consumption behaviour.
Conventional cross-sectional data are not well placed to help with this type of research question. With repeated cross-sections we can only identify whether the number of people living below some pre-determined poverty line is changing. Such data will typically tell us nothing about the flows in and out of poverty. Of course, retrospective histories could be collected from members of cross-sectional surveys. This approach, however, is very burdensome on participants and, more importantly, suffers from problems associated with how respondents recall events in the past.

The obvious solution to this type of dilemma is to collect longitudinal data. Such data would, for example, facilitate a more accurate assessment of incomes from a lifetime perspective. To return to the poverty example, cross-section data reveal that rates of poverty, as measured by the proportion of persons whose current income is less than 50 per cent of average income, have been relatively stable in Australia over the past two decades. These data, however, almost certainly disguise a high volume of movement of people into and out of poverty. Consequently, cross-section data are not well placed to inform us about what sort of people are at most risk of falling into poverty and remaining there, and what factors might be helping others escape poverty. In the United States, for example, longitudinal data from the Panel Study of Income Dynamics (PSID) have been used extensively to analyse the question of poverty persistence (see Burkhauser 2001). Similar work followed in many European countries (see Jenkins 2000).

Of course the policy-relevant applications of longitudinal data extend well beyond poverty dynamics. A recent review by Burkhauser and Smeeding (2001) provides a number of examples of policy questions that are being answered using data from longitudinal data collections that exist in other countries. Included here are the determinants of earnings inequality, the retirement decision, and the impact of disability on future earnings and economic wellbeing. Perhaps more importantly, the authors also identified a range of future (and ongoing) policy debates that would benefit greatly from the presence of socioeconomic panels. Included here are population ageing, social exclusion, inter- and intra-household resource allocation, and the consequences of immigration.

It was against this background that, in 1999, the Commonwealth Government committed funds for the conduct of the first three waves of a major new longitudinal survey. Titled the Household, Income and Labour Dynamics in Australia (or HILDA) Survey, its primary objective is to support research questions falling within three broad and interrelated areas:

(i) income dynamics—with a particular focus on how households respond to policy changes aimed at improving financial incentives, and interactions between changes in family status and poverty

(ii) labour market dynamics—with a focus on low-to-middle income households, female participation, and work-to-retirement transitions
(iii) family dynamics—focusing on separation and divorce and socioeconomic status, and on links between income support and family formation and breakdown.

The project was initiated by, and is the responsibility of, the Department of Family and Community Services (FaCS). Management of the survey was put out to tender and awarded (in August 2000) to the University of Melbourne. More specifically, a team based at the Melbourne Institute of Applied Economic and Social Research is managing the HILDA survey. The winning tender also involves the significant involvement of the Australian Council for Educational Research (ACER) and the Australian Institute of Family Studies (AIFS). In addition, all of the fieldwork has been sub-contracted to ACNielsen, a large private market research company.

This article provides an outline of the HILDA survey methodology. Its main focus is on the key parameters that underpin the design of the survey and on the development of the survey instruments.

2. Survey design

Overview
As discussed in Haisken-DeNew (2001), the genesis of most of the major household-based panel studies can be traced to the PSID, which began in the United States in 1968. The PSID only conducted interviews with the household head. The next generation of household surveys, including for example the German Socio-Economic Panel (GSOEP) and the British Household Panel Survey (BHPS), shifted to interviewing all adult members of the household separately. The design implemented for the HILDA survey is closely based on this latter generation of panel surveys.

Thus, like the BHPS, the HILDA sampling unit is the household, and members of those households are to be tracked over an indefinite life. Assuming participants can be traced each year and are prepared to cooperate, individuals would only drop out of the sample in the event of death, emigration from Australia, the acquisition of some disability that prevented further participation (such as the onset of dementia), and incarceration. However, in this design the sample size does not decline gradually over time. Indeed, it is possible for the overall sample to grow in size. That is, the sample is automatically extended over time by ‘following rules’ that add to the sample any new children of members of the selected households (including both biological and adopted children) as well as new household members resulting from changes in the composition of the original households.

Compared with other possible designs, such as a classic single cohort panel (for example, the National Longitudinal Survey of Youth—NLSY—in the United States) or a repeated medium-life panel (for example, the LSIA in Australia, or the Survey...
of Labour and Income Dynamics—SLID—in Canada), this design is generally thought to be superior in terms of delivering high quality information about family, income and labour dynamics. In particular, the lengths of medium-life panels are often too short to provide an understanding of some of the issues and questions that are of highest priority in the HILDA survey. A good example of this is the impact of early work experiences on subsequent labour-market careers. There is considerable debate about whether people’s casual and part-time work experiences when young help or hinder their long-run employment prospects. Unfortunately, most longitudinal data available in Australia that might help researchers analyse this question simply do not track people over sufficiently long periods of time. Gaston and Timcke (1999), for example, have attempted to analyse this question using data from the Australian Youth Survey, but were only able to consider transitions over a four-year period.

An important feature of the proposed design is the hierarchical nature of the data structure, with all individual participants grouped into a larger unit—the household. Household-based datasets permit analysis of the behaviour of both individuals and households (and indeed, other units of analysis are also possible, such as couples, families and income units within households). This data structure is also ideal for the development and testing of models in which household characteristics and dynamics are thought to shape individual behaviour, and similarly where the characteristics and behaviour of individual household members are thought to influence outcomes observed for households. Finally, the clustering of individuals into households will permit analyses of household formation and dissolution over time.

Reference population
The reference population for the first wave of the HILDA survey is all Australian residents who live in private households. That is—and this is consistent with most previous longitudinal surveys of this type—the scope of the population for sample selection at the first wave will exclude most persons living in institutions (such as hospitals and other health care institutions, military and police installations, correctional and penal institutions, convents and monasteries, and boarding schools) and other non-private dwellings (such as hotels and motels). Further, to ensure that all members of the in-scope population have the same probability of selection, dwellings that are not primary places of residence (for example, holiday homes) are also excluded.

For cost reasons, persons who live in remote and sparsely populated areas will be excluded from the sample. The Australian Bureau of Statistics (ABS) adopts the same practice in its supplements to the monthly Labour Force Survey. This exclusion results in about 80 000 persons being omitted from the scope of the HILDA survey.
Note that while all members of the household are defined as members of the sample, interviews will only be conducted with those persons who are at least 15 years of age (on June 30 in the year the survey wave begins). However, some limited information about younger persons (for example, their date of birth, sex, presence of long-term health conditions or disabilities, and contact arrangements with parents if their parents are separated) will be collected from an appropriate adult member of the household.

**Data collection unit**
The data collection unit is the household. Following the ABS, this is broadly defined as ‘a group of people who usually reside and eat together’ (ABS, *Statistical Concepts Library*, ABS Cat. No. 1361.30.001), with emphasis given to the making of common provision for food.

The ABS makes the further observations about households.

- A household resides wholly within one physical dwelling. A group of people who make common provision for food but are living in two separate dwellings are two separate households.

- Lodgers who receive accommodation only (not meals) are treated as a separate household.

- Boarders who receive accommodation and meals (board) are treated as part of the household.

In general, persons who live in more than one household will only be treated as members of the household where they spend most of their time.

We do, however, vary from the ABS practice in how children attending boarding schools and halls of residence while studying are treated. Specifically, while these dwellings are out of scope, such individuals are treated as members of sampled households provided they spend at least part of the year in the sampled dwelling.

Note that just because the unit of data collection is the household does not mean that the unit of analysis will also be confined to the household. As Creedy (1994, p. 63) has emphasised, since household composition will change over time, researchers will typically use the individual as the unit of analysis, attributing to individuals the characteristics of the household in which each person lives (see also Duncan & Hill 1985). Indeed, in terms of tracking sample participants over time, it is the individual that is the most relevant unit.

**Sample representativeness and following rules**
Obviously the intent is to select a sample that is, with the exception of the exclusions noted above, representative of Australian households and residents. Nevertheless, even if this achieved in wave 1, there is the strong possibility that with the type of design proposed here, the sample will becomes increasingly less representative of the population over time. One reason for this is that the nature of
the sample changes systematically through attrition. The experience with the PSID, however, suggests that in well-managed surveys, such concerns take a long time to assume significant proportions. Fitzgerald, Gottschalk & Moffit (1998), for example, have shown that 21 years on, and despite a loss of 50 per cent of the original sample, the sample still retained its cross-sectional representativeness. This outcome, however, was no accident, and reflects the presence of following rules that were designed to ensure that the sample replaces itself in the same manner as the population (Duncan & Hill 1989). In the BHPS, for example, persons not included in the first wave but who subsequently became members of households containing an original sample member (for example, as a result of birth or marriage, or because of other changes in household composition and formation) become eligible for sample inclusion. Similar following rules have been implemented for the HILDA survey.

Essentially, eligibility for sample inclusion after wave 1 can occur in the following ways.

- A child is born to, or is adopted by, an ‘original’ or ‘continuing sample member’. This child automatically counts as an original sample member and information about that child will be collected from parents until age 15 (after which they too will become eligible for interview).

- An original sample member moves into a different household with one or more new people. These new people will now become eligible for interview, but are only treated as ‘temporary sample members’.

- One or more new people move in with an original sample member. Again, these new people will now become eligible for interview, and are counted as temporary sample members.

All temporary sample members remain in the sample for as long as they remain in the same household as the original sample member. Temporary sample members, however, are converted to continuing sample members if they become the parent of a new original sample member birth.

As in the BHPS, all continuing sample members would be traced and followed in subsequent waves, including persons who move into institutions. The only exceptions here would be those persons who cease to reside in Australia or are in prison at the time of the interview. These sample members, however, may still be interviewed at subsequent waves should their status change (that is, they return to Australia or are released from prison). Temporary sample members, on the other hand, are only followed for as long as they remain living with, or are converted to, a continuing sample member.
The use of these following rules, however, does not guarantee that the panel will remain representative in a cross-sectional sense. As explained in Henstridge (2001), most following rules systems will still cause the age distribution of the sample to diverge from that of the population. Ultimately, the only way to adjust for this divergence is through the use of appropriate weights.8

Other potential problems with the representativeness of the sample relate to the treatment of:
- persons with illness conditions and disabilities that render them unable to be interviewed
- persons with English language difficulties
- recent immigrants.

The first problem will be at least partially solved through obtaining assisted interviews wherever possible. That said, we recognise that there is likely to be little value in persisting with interviews of elderly persons who, because of age-related conditions, are unable to participate meaningfully in the interview. The second problem will be handled through the use of bilingual interviewers, though financial considerations mean that foreign language interviewing will only be available for a handful of the most common languages. The third problem is even more difficult to deal with, though in the short- to medium-term it is not expected that the under-representation of recent immigrant arrivals will seriously bias the representativeness of the sample. In the longer term serious consideration will need to be given to adding a ‘refresher’ sample of recent immigrant arrivals.9

**Interview frequency**

Interviews will be conducted on an annual basis, at least during the first three years of the survey. The main weakness with annual surveys, of course, is that the data collected may provide only limited information about dynamics that occur within the year. That is, while it will provide extensive information about the situations of households and their members at yearly intervals, it is less likely to provide detailed information about changes in status and behaviour between interviews. For example, many people who begin an unemployment spell exit unemployment within six months of entering it.10 Further, many (about one-quarter of jobseekers in the year ended February 1999) experience more than one spell of unemployment within the year. Given these dynamics, there is a danger of missing a significant amount of important information with survey dates a year apart. To allay this concern, questions about the labour market histories of the respondents over the course of the previous year will form part of the core content of the survey questionnaire. But we can expect that these data will not be without problems. Most importantly, recall bias will affect responses, with those respondents with the most volatile labour market histories over the preceding year likely to be also the respondents with the least accurate recall.
Data collection mode
In general, international practice is that during the first few waves at least, panel surveys are conducted face-to-face. This mode of interviewing is generally thought to be more successful in eliciting cooperation, vital during the earliest years of the panel when sample member identification with the study is still developing.11 Unfortunately, the initial budget for this study together with the expected sample size precludes conducting face-to-face interviews in all three waves. At the moment the most likely scenario is that face-to-face interviews will be conducted in the first two waves followed by computer-assisted telephone interviewing (CATI) in subsequent waves. But this could change.

Apart from eliciting greater rates of respondent cooperation, use of face-to-face interviews provides other advantages. First, more difficult questions that are not easily asked over the telephone can be posed with the use of show cards and other visual aids. This is of particular significance to the HILDA survey given the difficulties likely to be associated with collecting income data, and especially the components of income, over the telephone. Second, face-to-face interviews provide more opportunity for respondents to check records to verify their answers.12 Third, compared with CATI, more data can be collected with a face-to-face interview (that is, direct face-to-face contact tends to be associated with greater interviewee attention, thus facilitating the collection of more accurate data over longer interviews).

The main downside of face-to-face interviewing is that it is much more expensive and thus will mean a smaller sample size. As a consequence, the data may not provide sufficient numbers of observations to analyse important sub-groups within the population, including those of particular interest to the Commonwealth (for example, persons in receipt of certain types of benefits). Other disadvantages include:

- greater difficulties supervising interviewers and hence maintaining ‘control’ over the interview process
- respondent discomfort arising from the physical presence of strangers within the home
- a loss of statistical efficiency from having to use a clustered design.

Sampling
The use of face-to-face survey methods in wave 1 dictates some form of direct physical sampling (face-to-face interviewing usually requires a cluster sample to minimise travel costs) which, in turn, almost always involves a cluster sample design. The sampling frame is thus an area-based frame consisting of Census Collection Districts (CDs), each of which consists of approximately 200 to 250 households.

In total, the initial sample in wave 1 consists of 488 randomly selected CDs. This sample of CDs was stratified by state, and within states, by metropolitan and non-metropolitan regions. Despite the region-based stratification, however, the smaller states and territories were not over-sampled. This reflects both the focus
of the HILDA survey on producing nation-wide population estimates, and our view that any benefits from a differential probability approach to sampling are outweighed by the negative impacts on overall statistical efficiency.

Trained interviewers visited each of the selected CDs (in June 2001) to provide a full listing of all private residential dwellings within the CD boundaries. A random starting dwelling was then chosen for each CD with further dwellings selected according to a pre-defined skip pattern and a randomly determined route. The intent was to select an average of 25 dwellings per CD, which in turn was expected to generate an average of 23 in-scope dwellings. The actual number selected, however, varied depending on projected variations across CDs in response rates and in occupancy rates.

In total, the initial sample comprised over 11,449 dwellings (after excluding addresses that were out of scope), making it larger than the initial sample sizes in most other studies of this type, including the PSID, the GSOEP and the BHPS. Multiple households within dwellings means the effective sample is even larger, with all households at dwellings with three or fewer households selected into the sample, and up to three randomly selected households at dwellings with more than three households.

In addition to facilitating control over the sample selection process, the pre-enumeration of the selected CDs provided two other key advantages. First, it enabled us to mail a primary approach letter and brochure about the study to all selected households in advance of an interviewer arriving at the door. Second, it provided the necessary data from which to calculate sample selection probabilities.

3. Response and attrition

Wave 1

We have been aiming to complete interviews with at least one household member at 70 per cent of all households selected into our wave 1 sample. Further, in 65 per cent of sampled households, we were hoping to obtain interviews with all members of those households aged 15 years and over. These target response rates were based largely on ‘best-practice’ international experience. For example, in the first wave of the BHPS (conducted in 1991) at least one interview was completed at 74 per cent of eligible households, with complete coverage of eligible adults achieved in 69 per cent of households. Similarly, at the commencement of the PSID, 76 per cent of households were reported as being successfully interviewed in the first year (Brown, Duncan & Stafford 1996, p. 158).

The 65 per cent full household response rate was based on the assumption that we would be using proxy interviews for individuals unavailable during the interview period. Concerns about ensuring we had obtained informed consent, however, caused us to abandon pursuing proxy interviews and hence we expect to fall short of the 65 per cent target.
Furthermore, outcomes from a dress rehearsal of the survey conducted in June 2001 suggest that these response rates are ambitious, with interviews only being conducted successfully at 55 per cent of sampled households. Nevertheless, there are at least three reasons not to get too pessimistic about this outcome. First, the dress rehearsal sample was concentrated in Sydney, and it is well established that survey response rates are relatively low in Sydney (see Bednall, Cavenett & Shaw 2000). Second, the fieldwork period for the dress rehearsal was relatively short. Third, unlike the dress rehearsal, a cash incentive—up to $50 for every household where all household members are successfully interviewed—will be used in wave 1 of the HILDA survey to encourage respondent cooperation.

Nevertheless, the difficulty of obtaining high response rates cannot be understated. Moreover, there are a number of factors that pose particular difficulties for HILDA survey compared with previous surveys. First, the fieldwork for the first wave of the survey was undertaken during a period when there were many other survey organisations competing for respondent time. Most obviously, it was begun in the wake of the 2001 Census, which might be expected to create some hostility towards yet another government-sponsored data collection initiative. Further, with a federal election taking place toward the end of the field period, there will have been a higher than normal risk of sample members being asked to participate in opinion poll surveys.

Second, in terms of delivering complete household coverage (that is, obtaining personal interviews with all in-scope household members) the length of the fieldwork period for the first wave of the HILDA survey is, at just four months, comparatively short. Most other household panel surveys have fieldwork periods that stretch to nine months and beyond.

Finally, and most importantly, there is a growing amount of evidence from around the world that indicates that respondent cooperation with survey organisations is declining. Bednall, Cavenett & Shaw (2000), for example, report evidence from a large long-running US telephone-based opinion survey that reveals a marked rise in refusal rates during the 1990s, after being relatively stable during the 1980s. Even more relevant for the HILDA survey, both the GSOEP and BHPS have in recent years attempted to add new samples to their studies, and in both cases the rates of response were well down on the initial response rates reported for their original samples.

In wave 9 of the BHPS, conducted in 1999, two additional household samples were recruited in Wales and Scotland. Partial coverage was only achieved at 63 per cent of the selected sample, which represents an 11 percentage point decline compared with the rates achieved in 1991. Further, the proportion of households where complete adult coverage was obtained fell even further—54 per cent compared with the 69 per cent reported eight years earlier.
Similarly, in 2000 the GSOEP added a major new fresher sample. As with the BHPS, achieved response rates were much lower than those reported for the original sample surveyed in 1984. Interviews were obtained at only 51 per cent of their new households sampled in 2000, compared with 63 per cent in 1984.\textsuperscript{15}

Non-response, and the consequent potential for respondent bias, is thus likely to be a major issue for the HILDA survey.

**Waves 2 and 3**

In a longitudinal design there is potential for non-response at every wave. At one level this is less problematic than non-response at wave 1. In particular, since we have detailed information on the characteristics of all respondents at wave 1, it should be easier to apply weights to the data to compensate for any bias this non-response gives rise to. Such procedures, however, are only likely to be effective in the short run. Over the longer term it is important to minimise attrition because of the potential for the ‘movers’ to be quite different from the ‘stayers’ in ways that may not be observable at wave 1. Further, high rates of attrition have obvious detrimental effects on sample size.

International experience tends to suggest that attrition is highest in the first two years of the survey and then stabilises. Indeed, in the PSID, attrition rates fall to as low 2 to 3 per cent by wave 3. Fourteen per cent of the sample, however, was lost in wave 2 (Brown et al. 1996, p. 158).

Attrition rates in most other studies are, if anything, higher. Again we can point to the experience with the BHPS. In that survey, interviews were conducted with 88 per cent of the wave 1 respondents in wave 2. By wave 8 the proportion had fallen to 68 per cent. A good proportion of the attrition by wave 8, however, was due to deaths or because the sample member had moved out of scope. In total, after adjusting for deaths and movements out of scope, 75 per cent of the original sample remained in scope at wave 8.

The preceding discussion is based on surveys that used face-to-face interviews, at least in the first few waves; attrition rates can be expected to be higher when using CATI. Certainly, and as noted earlier, response rates are lower in cross-section surveys that use telephone methods.

Strategies being implemented as part of the HILDA survey that are intended to minimise attrition include:

- the inclusion of tracking questions in the questionnaire seeking contact details (postal addresses, telephone numbers and email addresses), information on future movement intentions, and names of relatives and friends not living at the same address
- sending a thank you gift (a calendar) to all interviewees following the interview, together with change-of-address cards for notification of any intended moves
- maintaining contact with participants between survey waves through a respondent newsletter providing summary information about the study
maintaining a 1800 telephone number so that participants can contact the fieldwork agency

seeking forwarding addresses or telephone numbers from non-sample members at the address or telephone number of the original sample member

using the electronic White Pages and Australia Post to pursue contact details for persons who have changed address.

4. Survey content and instruments

In wave 1 the HILDA survey comprised four main instruments:

- the household form
- the household questionnaire
- the personal questionnaire
- an individual self-completion questionnaire.

**Household form**

The household form provides information obtained before the interview or which can be observed before contact is made with members of the household, as well as recording basic information about the composition of the household immediately after contact is made. In effect, it is a type of ‘master document’ that helps the interviewer to determine who they need to interview, as well as alerting them to what sections of the person questionnaire are relevant for each respondent.

The information recorded on this form includes:

- household address
- dates and times of each visit
- outcome of each visit
- for refusing households, reason for refusal
- number of households at the address
- whether the residence is in-scope (that is whether it is a private residence and is occupied on an ongoing basis)
- household composition—name, date of birth, age and sex of all household members
- other selected personal characteristics of household members (for example, health/disability status, marital status, English language ability, labour force status)
relationships between household members.

Interviewer observations—for example, on the type of residence and its condition—are also recorded here.

**Household questionnaire**

This questionnaire collects information about the household rather than about individual household members per se, and only has to be administered to one member of the household. In practice, however, interviewers are encouraged to be flexible. If more than one household member wishes to be present at the interview this is perfectly acceptable; indeed, it should improve the quality of data collected. Further, interviewers are given the flexibility to deliver part of this interview to one household member and part to another. Indeed, this is often required given this questionnaire includes questions on child care that needed to be asked of the primary care giver.

Key data items collected here cover the following:

- housing characteristics (number of bedrooms, ownership status and value)
- details of mortgages, home loans and rent payments
- vehicle ownership
- household grocery and food expenditures
- child care arrangements.

The combined time spent in the household administering this schedule together with those details within the household form obtained directly from household members is expected to average 10 minutes.

**Person questionnaire**

This instrument is administered to every person aged 15 years and over (on 30 June) in the household, and is expected to average 35 minutes. It will provide the bulk of the HILDA survey data items. The structure of this questionnaire, together with examples of the types of issues covered, is summarised in Table 1.
Table 1: Structure of the Person Questionnaire

<table>
<thead>
<tr>
<th>Section</th>
<th>Types of issues covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Country of birth and language</td>
<td>Birthplace&lt;br&gt;Year of arrival in Australia (if born overseas)&lt;br&gt;English language background&lt;br&gt;Aboriginality</td>
</tr>
<tr>
<td>B Family background</td>
<td>Parental presence at age 14&lt;br&gt;Age when first left home&lt;br&gt;Parents' birthplace&lt;br&gt;Parents' occupation</td>
</tr>
<tr>
<td>C Education</td>
<td>Age left school and highest year of school attended&lt;br&gt;Post-school qualifications obtained&lt;br&gt;Current educational activities</td>
</tr>
<tr>
<td>D Employment history and status</td>
<td>Numbers of years since left full-time education&lt;br&gt;Summary measures of labour force history&lt;br&gt;Current labour force status&lt;br&gt;Current employment status&lt;br&gt;Time since last worked, if not currently employed&lt;br&gt;Characteristics of last job, if not currently employed</td>
</tr>
<tr>
<td>E Persons in paid employment</td>
<td>Characteristics of main job (occupation, hours, tenure, etc.)&lt;br&gt;Employer characteristics (industry, size, sector)&lt;br&gt;Perceived employment prospects&lt;br&gt;Job satisfaction&lt;br&gt;Retirement intentions</td>
</tr>
<tr>
<td>F Persons not in paid employment</td>
<td>Job search activity&lt;br&gt;Types of difficulties experienced in finding a job&lt;br&gt;Desire to work (if not looking)&lt;br&gt;Reasons for not looking for work (if not looking)&lt;br&gt;Reservation wage&lt;br&gt;Perceived employment prospects</td>
</tr>
<tr>
<td>FG Calendar</td>
<td>History of employment, job search and education history since July 1 of preceding year&lt;br&gt;Mutual obligation activities</td>
</tr>
<tr>
<td>G Income</td>
<td>Current income from:&lt;br&gt;  - wages and salaries&lt;br&gt;  - government pensions and benefits&lt;br&gt;Financial year income from:&lt;br&gt;  - wages and salaries&lt;br&gt;  - government pensions and benefits&lt;br&gt;  - businesses&lt;br&gt;  - savings and investments&lt;br&gt;  - other sources&lt;br&gt;Credit card use</td>
</tr>
<tr>
<td>H Family formation</td>
<td>Characteristics of children&lt;br&gt;Child support payments&lt;br&gt;Patterns of contact parents and children (where they live apart)&lt;br&gt;Likelihood of having children</td>
</tr>
<tr>
<td>J Partnering</td>
<td>Marital history&lt;br&gt;De facto relationships&lt;br&gt;Marriage intentions (for persons in de facto relationships)</td>
</tr>
</tbody>
</table>
Table 1 (cont’d)

<table>
<thead>
<tr>
<th>Section</th>
<th>Types of issues covered</th>
</tr>
</thead>
</table>
| K  Life situation | Health status  
|               | Life satisfaction  
|               | Attitudes to life in  
|               | Australia Reasons for moving (if moved in past 12 months)  |
| T  Tracking    | Contact details  
|               | Movement intentions  
|               | Names of friends / relatives  |
| Z  Interview situation | Respondent cooperation and understanding  
|               | Problems affecting interview  |

Note that while explicit mention of ‘life events’ has not been made, major life events will be fully documented within the scope of the survey. Changes in household composition (for example, arising from births, death, the formation and dissolution of cohabiting relationships, and children leaving home) will obviously be captured in the survey, as will other significant life events, such as purchasing large assets (for example, a home), moving house, changing employment, loss of a job, retirement from paid work and major changes in health status.

Self-completion questionnaire
A relatively novel feature of the HILDA survey is the collection of additional data via a self-administered questionnaire.16 We hope that, in most cases, this questionnaire will be collected by the interviewer at a later date, but we are also allowing for these questionnaires to be returned to the fieldwork company by mail.

The questionnaire comprises six main sections. These are as follows:

A  General health and wellbeing (the SF-36 Health Survey);  
B  Lifestyle and living situation  
C  Personal and household finances  
D  Attitudes and values about work  
E  Your job and the place where you work  
F  Parenting

The questionnaire is 16 pages long and is expected to take 20 to 25 minutes to complete.

A self-completion supplement is also administered as part of the BHPS and is generally thought not to have adversely affected response rates. That said, the BHPS instrument is much shorter (just 5 minutes) than the instrument developed for the HILDA survey. On the other hand, respondents to the BHPS are required to complete the form in the presence of the interviewer. Overall, it is not expected that the presence of a self-completion supplement will adversely affect response rates.
Topics for later waves
Of course, there is a range of other topics that ideally we would like to have information on. Their inclusion has been constrained by a lack of space. We expect, however, that at least some of these topics will be covered during the later waves of the survey. Wave 2, for example, will, with additional financial support from the Reserve Bank of Australia, include new questions designed to measure net household wealth. Other possible candidates for future waves include:

- literacy and numeracy
- career aspirations
- recent training and education experiences
- health-related conditions and behaviours.

5. Timetable
The fieldwork for wave 1 began in late August 2001 and ran until late December. This timeline permits a public release of the wave 1 data in October 2002.

In later waves the fieldwork period will be extended through to April. That is, the fieldwork period will run from late August through to April each year. This longer fieldwork period is consistent with the practice in the BHPS, and is needed to maximise the likelihood of locating and interviewing all sample members. This longer fieldwork period, of course, will mean data releases in later years will also occur later. At this stage we expect wave 2 and wave 3 data, together with the relevant longitudinal data files, will be publicly released by the end of 2003 and 2004 respectively.

6. Confidentiality and data access
Risk of disclosure
As with all unit record data sets, there is a risk that the identity of some respondents will be revealed through the information collected in the survey. This risk is even higher with longitudinal data because of the large array of events and transitions that will be documented over the lifetime of sample members.

Solutions to the risk of disclosure are still being explored with the project sponsor, FaCS. It is inevitable, however, that some of the information collected will not be made available on the public-use file. In particular, some variables may be provided in a form that is more aggregated than that in which it was collected. This, for example, would include occupation and residential location variables.
We would expect that users who are able to demonstrate a strong need for any missing data would still be able to access that data, but only after agreeing to a stringent set of use conditions about access, security and disposal of the data, and only if they can satisfy FaCS that those conditions are likely to be met.

**Dissemination**

The confidentiality issue can also be handled through regulating user access to that data. Again this is an issue that we are still exploring with FaCS. We hope that the data access policy will not be too restrictive.

The GSOEP provides one model. There the principal end product is a public-use micro-data file with front-end software (for example, SAS or SPSS) that will allow users to select variables and sub-populations of interest. Data releases occur each year with data from subsequent waves merged into the earlier waves. These public-use micro-data files are made available to bona fide researchers and research organisations on a CD-ROM for a nominal handling charge. All users are required to sign an agreement that specifies conditions under which the data are to be used and stored.

7. **Concluding remarks**

Social scientists disagree about many things, but there are probably few that have not described the world of the past decade as one of profound change. It follows that research in the social sciences will naturally gravitate towards the analysis of change and its sources. In Australia, researchers looking to improve our understanding of social and economic change continually run into the same obstacle—they simply do not have access to the right type of data with which to test their hypotheses. One of the main aims of the HILDA survey is to rectify this deficiency. Moreover, the breadth of the topics covered should serve to ensure that the HILDA data are eventually embraced by researchers working across the broad spectrum of social sciences in Australia. Further, the fact that the design of the HILDA survey can hardly be described as innovative, borrowing so extensively as it does from other international panel surveys, provides one of its key strengths. As observed by Haisken-De New (2001, p. 364) in a recent comparative overview of household panel survey data, ‘brand new household panels like the Australian HILDA ... have had the fortune of being able to learn from the mistakes of previous surveys’.

The HILDA survey thus has the potential to become recognised as Australia’s ‘gold standard’ survey for understanding and analysing change. Whether it is able to realise this potential will depend on how it is received by users, which in turn will depend on perceptions about the quality of data, the ease with which it can be used, and its availability. The other obvious determinant of the long-run success of the HILDA survey will be whether or not it attracts funding beyond the initial three-year window. Funding, of course, can be expected to be sensitive to the survey
generating sufficient user interest. The problem for the HILDA survey is that government decisions about future funding will need to be made before there has been sufficient time for HILDA to generate interesting data. A decision about funding further waves of the HILDA survey, for example, will have to be made as part of the May 2003 budget process, and only the cross-section data from wave 1 will be available when this decision is made.

Endnotes

1 The HILDA Project was funded, and is initiated, by FaCS. The views expressed in this article, however, are those of the authors and should not be attributed to either FaCS or the Melbourne Institute.

2 This survey program combines and builds on the earlier cohorts within the Youth In Transition, Australian Longitudinal Survey and Australian Youth Survey programs.

3 The sample employed in this study was relatively small, with just 2231 persons participating in wave 1 (819 of whom were incorporated from the pre-test). Consequently, even with modest rates of attrition, it is unlikely that it will be worthwhile following this sample for more than a few years. For more details about this survey, see McDonald et al. (2000).

4 For an excellent discussion of the analytical advantages (and disadvantages) of panel data, see Rose (2000) and the contributions therein.

5 Indeed, according to Harding and Szukalska (2000, p. 6) the proportion has fallen, from 14.6 per cent in 1982 to 13.3 per cent in 1999.


7 Note that long-term caravan park residents are treated as residing in private dwellings.

8 Henstridge (2001) outlines in much greater detail how such weighting factors might be constructed.

9 Immigrant refresher samples have been added to both the PSID and the German Socio-Economic Panel. In both cases, however, these new samples were not considered warranted until after the survey had been running for many years. The German study commenced in 1984 with the immigrant refresher added in 1994 and 1995. The PSID has been running since 1968 and the new immigrant sub-sample was only added in 1997 (though a Latino supplement was added in
1990 only to be discontinued five years later).

According to data from the ABS Survey of Labour Force Experience for the year ended February 1999 (ABS cat. no. 6206.0), 64 per cent of persons who had been looking for work during that year spent less than 6 months of the year engaged in job search. These data, however, will underestimate unemployment duration given they do not pertain to completed spells of unemployment.

Response rates in surveys employing face-to-face interviews have generally been found to be higher than surveys using other methods. In a meta-analytic review involving 28 different studies where telephone and face-to-face methods were compared, de Leeuw and van der Zouwen (1988) reported an average response rate for face-to-face interviews of 75 per cent. This compared with an average of 69 per cent for the telephone interview method. Further, both Australian and UK evidence suggests that the gap may be even greater (Collins et al. 1988, Donovan et al. 1997). Indeed, in the Australian study reported by Donovan et al. (1997) the reported response rates for telephone interviews was just 46 per cent, compared with 57 per cent for face-to-face interviews.

Though interview time constraints is likely to mean that such records checking is likely to be discouraged.

The 76 per cent response rate reported for the PSID does not take into account the fact that part of the sample was derived from an earlier survey, 25 per cent of which refused to allow their names to be sent to the PSID survey team. Adjusting for this would reduce the actual response rate to 69 per cent.

Some indication of the potential effectiveness of cash incentives is provided by an experiment undertaken in conjunction with the National Adult Literacy in the USA in the late 1980s, and reported in Groves and Couper (1998, p. 281). That study found that a US$20 per head incentive was associated with a 71 per cent response rate compared with 64 per cent among those not offered any cash incentive.

As reported in personal correspondence from Dr John Haisken-DeNew. Note that unlike the BHPS, in the GSOEP incomplete households are excluded from the responding sample for the first wave.

A self-completion supplement is included as part of the BHPS. The instrument used in the BHPS, however, is very short (takes 5 minutes) and is completed in the presence of the interviewer.
References


Book reviews

Australian Social Policy 2001–02

**Reviewer: Fiona Carberry**

*Office of Disability, Department of Family and Community Services*

This book is about the making of four hallmark social policy reforms of the Labor Government of 1983–96: Austudy, the Child Support Scheme, the Higher Education Contribution Scheme (HECS) and *Working Nation*. Meredith Edwards, the book’s primary author, was a key player in all four reforms, as a senior public servant and a ministerial consultant.

Together, the four case studies depict the social policy landscape of the era. The government of the day was intent on making sweeping changes by tackling some of the nation’s most intractable or ‘wicked’ problems: too few young people finishing school and entering tertiary education, too few separated parents paying child maintenance, the financing of an expanding higher education sector, and entrenched long-term unemployment. It was also a government striving for greater equity in an unfavourable economic climate and seeking to resolve the tensions inherent in trying to reconcile objectives such as enabling access to higher education by poor people (and remaining faithful to the party platform of free education) at the same time as constraining spending.

*Social policy, public policy* gives a realistic impression of policy development as a battlefield of opposing ideas and interests, and depicts the achievement of major change as a struggle on every front.

The book is well structured and easy to read. A chapter is devoted to each case study and structured around the stages of the policy cycle identified in a standard textbook for policy students, *Australian Policy Handbook* (Bridgman & Davis 2000)—that is, identifying the issues, policy analysis, consultation, decisions, implementation and evaluation. Exploration of these stages is preceded by a section on ‘history and context’, outlining the drivers for change and a section on ‘structure and players’, explaining the institutional arrangements or machinery in place to develop the policies. Boxes with chronologies of events and names of key players are reminiscent of the layout of Neal Blewett’s *A Cabinet Diary* (2000). The concluding chapter attempts to summarise a recipe for successful policy development.

The book brims with lessons for policy developers and insightful observations about each phase of the policy cycle. Some of these are highlighted below.
Identifying issues

◗ This stage is really about marshalling arguments to convince others of the need for policy change. Influential and clever ministers with reformist zeal (Howe and Dawkins shine) and talented ministerial advisers set the policy agenda by identifying issues.

◗ For example, in the HECS case study, Dawkins’ adviser admits that the minister was ‘looking for ... a painless way to introduce [university] fees’ (p. 110). The power of slogans or mantras is evident. One of Dawkins’ two main arguments to justify students paying directly was that ‘free’ higher education is ‘middle class welfare.’

Policy analysis

◗ The genesis of major policy reforms is often a simple idea: for example, a graduate tax or a child support levy.

◗ Investment in data collection and research is invaluable because unearthing a critical piece of data can turn around a policy debate. (However, data used can also be extremely controversial, for example, the costs of children data used to determine the child support formula percentages. Edwards et al. say this ‘erred on the low side of the costs of children’ (p. 71), but fathers’ groups have argued ever since the scheme’s inception that they are expected to pay far more than the real costs of children.)

◗ Costings can be very technical and time-consuming and estimates of savings can be way out (child support being a case in point, with the forecast of net revenue to be generated by the scheme being 30 per cent overly optimistic based on inaccurate information!). Edwards et al. ponder how much this error might have changed ministers’ interest in the scheme had they known about it at the time.

◗ Policy developers need knowledge of implementation practicalities so that they can assess the feasibility of policy proposals.

Consultation

◗ Consultation processes are varied, but are generally tightly controlled and limited. Consultation is useful in flushing out issues on which there is consensus and contention. Edwards et al. say consultation processes always led to changed perspectives. In the case of the Child Support Scheme, however, they acknowledge that ministers had already made in-principle decisions that they did not want undone and were only consulting on ‘second order, but complex issues’ (p. 77). These consultations were done in haste, with two weeks between releasing a discussion paper and the start of the consultations.
Decision

- It is not unusual for Cabinet to consider a difficult policy issue on multiple occasions before making a decision.
- Compromises are necessary, and a skilled minister knows when and how to compromise. Brian Howe, as Minister for Social Security, epitomised this when he managed to get Cabinet’s agreement to introduce the Child Support Scheme in two stages.
- Decisions in all four policy areas involved balancing equity and efficiency objectives, and the budget ‘bottom line’ was the overriding constraint on ministers.

Implementation

- Decision-makers are typically impatient to implement whereas implementers typically stall, ‘if for no other reason than to ensure that implementation is done well’. (p. 84).
- ‘Politicians often lose interest after the main decisions are made’ (p. 182), which can lead to neglect of important implementation issues, for example, adequate resources and good quality staff in the case of the Child Support Scheme.
- In the case of the single youth allowance, ministers decided to equalise income support rates for students and unemployed young people and then left the bureaucracy to attend to more than 30 small remaining allowances and the problems they created.
- Common implementation hurdles are tight timelines (HECS was introduced less than five months after the Cabinet decision and Working Nation policies were implemented two months after the announcement), inadequate resources, organisational resistance and the lack of attention to the need for cultural and attitudinal change within organisations administering policy. For example, the Tax Office initially resisted the change in its role from tax collector to assessors of fair child support in family breakdown and debt collector from former students.
- Continuity of involvement by the players is necessary to ensure that the original policy intentions are translated into practice.

Evaluation

- Evaluations can take the form of parliamentary committee reports and Auditor’s reports as well as Public Service commissioned research and reports.
- Evaluations can be hijacked politically. They can be done to either justify policy or prove that the policy needs to change. Edwards et al. cite the Working Nation evaluation, conducted in the midst of the change of government in 1996, as an example and conclude that it ‘shows the need to have external evaluations which are as independent as possible from the government of the day’ (p. 184).
I have only two criticisms of the book. First, apart from the chapter on *Working Nation*, all the case studies are quite uncritical about the policy achievements. Although the concepts underpinning the reforms have remained intact and some noticeable improvements have been made, the problems have not been entirely solved. This is undoubtedly due in part to the vexed nature of such problems. However, it is also possible that better policy processes may have led to more enduring or sustainable policies. Some critical reflection on this in the book would have been worthwhile.

Interestingly, the four areas chosen for the case studies have all been busy policy zones under the Coalition Government too. *Working Nation*’s labour market policies have largely been dismantled, and the other policies have all been changed in varying degrees. The quest for the elusive simple and single income support payment for young people continued and culminated in the introduction of youth allowance in 1999. There is still a formula for child support, but it has been significantly altered, largely in line with the recommendations of a Joint Select Committee report, and the HECS scheme has also been modified.

Second, Edwards’ diary excerpts, which describe the rigours of life as a high-flying policy developer—a diet of takeaway meals, weekend and evening work, writing briefs on the bus and speeches in the Golden Wing Club—add little to the book. The authors succeed in their goal of writing a companion volume to the *Australian Policy Handbook*. Edwards et al. colour the handbook with the real-world experience of how the policy cycle works.

*Social policy, public policy* will be of interest to policy developers who worked through this period of the Labor Government and to those who have worked in any of the four policy areas. Particular chapters may also be of interest to anyone affected by these policies.

References


**Reviewer: Michael Sassella**  
*Senior Member, Administrative Appeals Tribunal*

This new book continues the tradition established by its predecessors, *Annotated Social Security Act* (published between 1984 and 1989) and *Annotations to the Social Security Act 1991* (published in several editions between 1992 and 1998). The need for a new book has been dictated by a variety of factors. Not only has social security law developed since 1998 as a result of case law found in court and tribunal decisions, but the statutory architecture has altered radically.

In 1999 the *Social Security Act 1991* ('the 1991 Act'), traditionally seen as too long and unwieldy, surrendered most of its mechanical and repetitive provisions to the new *Social Security (Administration) Act*. At the same time, the *Social Security (International Agreements) Act* was enacted and absorbed one part of chapter 4 of the 1991 Act. Finally, in July 2000 the Coalition Government’s ‘A New Tax System’ began operation. In addition to replacing sales tax with a goods and services tax, it replaced 12 forms of family assistance provided through the social security and taxation systems with three family benefit types.

The new family payments regime was accorded its own legislation, the *A New Tax System (Family Assistance) Act 1999* and the *A New Tax System (Family Assistance) (Administration) Act 1999*. Family payment legislation previously in the 1991 Act was repealed.

The book under review has provided helpful tables showing where repealed provisions in the 1991 Act have found a new home in one or other of the new Acts. An example at pages 664–668 relates to the removal and relocation of provisions on internal and external review of administrative decisions.

The social security legal landscape is therefore considerably altered and more complicated than in 1998. The book under review has accommodated and explained these developments, and other aspects of the social security legislative patchwork, very well indeed at pages 6 to 9.

This book, like its predecessors, is strictly an annotations book. It takes its bearings from the relevant legislation and then concentrates on secondary sources that help explain the primary source legislation. This is the book’s greatest strength and something of a weakness. I had the opportunity to write a review of the 1998 edition of *Annotations to the Social Security Act 1991* and I was somewhat critical of the book for being so locked into the 1991 Act and the cases and explanatory materials related to it. I am less critical this time because the new
book is so very effective at doing what it aims to do. It is a very fine volume for exploring the minutiae of social security legislation. The reader can be almost certain to find a reference to other material that will assist in understanding an abstruse legislative provision, so long as the provision has been addressed in a decided case or is discussed in an explanatory memorandum.

The book contains no preface or introduction. It contains essential up-front material such as the date of the cut-off of the law discussed, identification of contributors, tables of cases and statutes, and an excellent index, but it then moves straight into annotations relating to the 1991 Act. This is slightly unfortunate. A preface would be helpful in explaining to the reader precisely what the book’s intentions are and would give some insight into the priorities of the editors.

The book, however, makes certain claims on its back cover. It claims to annotate comprehensively Australian social security law and family assistance law as at 1 May 2001. This is a fair claim. The book does this.

It is aimed at social security practitioners, more particularly lawyers, tribunal members, Centrelink staff, staff of government departments and community advocates. I know from personal experience that the book is used extensively by some in the Department of Family and Community Services (FaCS). It can be assumed that such an audience has a reasonable overall understanding of the system. The book is notably not directed to the vast bulk of social security recipients.

The book claims to discuss in detail areas of increasing complexity such as assets and income testing, debt recovery, waiver of social security debts, compensation recovery, activity testing and marital status. The writers could have added the newly arrived resident’s waiting period, which has been a controversial innovation and has been the subject of some case law, not always consistent in its effect.

The book claims to include early cases on innovations such as the child disability assessment tool, the Job Network and youth allowance means test. This it does, and does effectively.

The only major improvement I could suggest to the book would be that it might include more in the way of contextual material. To a degree it already does this. It very helpfully ushers in amending provisions at all points by clearly identifying the legislation providing for amendments and clarifying the date(s) of effect of amending provisions. However, what is missing are such useful guides for readers new to the area as a short explanation of the role and operation of each of the multitude of payment types. There could also be more about the political and historical context attendant on some changes.

However, I can understand why the authors have refrained from doing this. It would add to the size of a book that is already 1000 pages in length. It would also add to the brief that the authors have undertaken. It would cease to be ‘just’ a book of annotations but it would become also an introductory textbook. The authors may be
on firm ground in playing to their obvious strengths. There is, however, no generally reliable introduction to social security law except perhaps for the Welfare Rights Centre (NSW)’s *Independent Social Security Handbook* which is more a handbook for recipients and their advisers than a narrative description or analysis.

It is difficult to know how to review a book such as *Social Security and Family Assistance Law*. It is a book to be consulted in relation to a particular issue as a step in the necessary research. It is not so much a book to be read from cover to cover. In this spirit I have scanned the book in its entirety and used it to research a couple of difficult issues. My comments, as a result of doing this, follow.

**Acts significantly affecting the 1991 Act**
This material at pages 6 to 8 is very successful on the whole. It is easy to be confused as to whether the *Student Assistance Act 1973* is still in force or whether it died when youth allowance was introduced. This and similar questions are answered simply. There are several possible improvements in this material. The commentary on the *Data-matching Program (Assistance and Tax) Act 1990* retains anachronistic references to ‘DSS’ (the Australian Department of Social Security), a sunset clause due to take effect in January 1999, and data-matching of other types then carried out by DSS but now done by Centrelink.

The discussion of the Commonwealth Services Delivery Agency Act 1997 helpfully clarifies that this is the Act that constituted Centrelink. However, the commentary is incorrect where it states that Centrelink employees exercise powers under the 1991 Act as delegates of the Secretary of FaCS. This implies direct delegation by the Secretary to Centrelink employees. In fact, the delegation by the Secretary is to the Chief Executive Officer of Centrelink who, in turn, delegates relevant powers to relevant employees in Centrelink under s. 33 of the Commonwealth Services Delivery Agency Act 1997 which permits her to subdelegate in accordance with a service arrangement such as Centrelink has with FaCS.

**Definitions**
The treatment of *de facto* relationships under the 1991 Act, a difficult area, is extremely well handled at pages 11–43.

The issues surrounding the concept of a ‘dependent child’ are complex and are comprehensively and clearly discussed at pages 46–60. The discussion is up to date and takes account of changes to the *Family Law Act 1975* in 1996.

The discussion of issues affecting the concepts of income, assets and related matters at pages 73–160 is comprehensive, accurate and readable.

In the area on review of decisions definitions (pages 176–183) the authors have collected some interesting authorities on the difficulties involved for litigants seeking to use the courts rather than the tribunals to challenge administrative decisions. Likewise, there is useful and otherwise hard-to-find material directly on point about costs in social security court matters.
Provisions relating to particular payment types
The authors have provided some original annotations in the form of tables indicating the similarities and differences between sole parent pension and parenting payment (pages 241 and 246).

The book is helpful in indicating where statutory instruments have been published by (usually) ministers under the authority of particular provisions in the 1991 Act. An example at page 257 is a determination of 30 June 1998 on youth allowance activity test exemptions. The authors have summarised in tabular form the content of that determination.

The book helpfully explains the fate of the Employment Services Act 1994, an Act with a short life span, at pages 308–309. This arises in relation to newstart allowance and is placed in juxtaposition to a short discussion on the Job Network. That discussion, strangely, does not explain how decisions are made by Centrelink employees in relation to individuals being handled by Job Network participants. There are protocols in place whereby the Job Network participant notifies Centrelink of possible breaches of requirements and a delegate, within Centrelink, exercises any statutory powers. This is an arrangement that has attracted some legal and other comment in the past several years and would merit some exposure.

In the material on the rate of payment of special benefit (pages 377–380) the authors could make the point that one possible application of the High Court’s decision in Minister for Immigration and Ethnic Affairs v Teoh (1995) 128 ALR 353 may be that, where a special benefit claimant has children, he or she should be paid at the maximum rate possible and the dollar-for-dollar deduction in respect of any income is to be replaced by the newstart allowance income test (which is more generous). The dollar-for-dollar deduction in special benefit is mandated only by policy, not by legislation. This outcome would be more beneficial for the affected children in accordance with the United Nations Convention on the Rights of the Child.

Compensation recovery
The current book, and its predecessors, have taken a keen interest in the provisions in the 1991 Act on recovery of compensation payments made to recipients of social security payments. This is a complicated and often amended area within the Act. The book under review provides an excellent coverage of this subject area (pages 161–174, 518–565). The discussion of special circumstances as a basis for waiving some or all of a period during which a person is precluded from receiving any of a wide range of social security payments is particularly comprehensive.
Compensation for defective administration and act of grace payments
Members of the public, departmental staff and social security advisers often find
the mechanisms for payments made other than under the social security
legislation difficult to locate and even more difficult to understand once found.
The authors have covered this rules-based area very competently at pages 698–702.

Review of decisions
Between pages 761 and 820 the authors cover a comprehensive range of
procedural and substantive issues that can arise in the context of an appeal
before the Administrative Appeals Tribunal in the main, but also before other
tribunals and courts. These matters include such topics as extensions of time for
bringing actions, issue estoppel, res judicata and concurrent proceedings in a
tribunal and in a court. It is often difficult to know where to find material on such
matters as they apply to a particular type of dispute. The authors have done a
masterful job in bringing together pretty much all that is known about these
matters in the social security context.

Conclusion
This is an excellent book for its intended audience. It has been produced with a
high degree of attention to accuracy and style. It is accurate, to the extent
possible, in its exposition of the law. It contains no misprints that I noticed. The
book reads fluently, especially when it provides extensive treatments of certain
subject matter. It is pleasing to see that the authors have been able to cover all
facets of the new social security legislative landscape without producing a book of
unmanageable size.
Guidelines for contributors

*Australian Social Policy* publishes current research and analysis on a broad range of issues topical to Australia’s social policy and its administration. Regular features include Major Articles, Social Policy Notes and Book Reviews.

Content is compiled by the Strategic Policy and Knowledge Branch of the Commonwealth Department of Family and Community Services (FaCS). *Australian Social Policy* supersedes the Social Security Journal published by the former Department of Social Security.

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