

DEPARTMENT OF FAMILY AND COMMUNITY SERVICES

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POLICY RESEARCH PAPER No. 1

# **The Australian system of social protection—an overview**

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

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## Executive summary

- Government income support provisions in Australia differ from those in most other developed countries (apart from New Zealand). Benefits are flat-rate and paid from general government revenue; there are no earnings-related features in the government benefit system.
- Payments are made on a categorical basis, with the most important categories being the aged, people with disabilities and those caring for people with disabilities, the unemployed, sole parents, the short-term sick, and war veterans. There is also an extensive system of supplementary payments for families with children. This includes direct cash assistance for around 80 per cent of all families, and higher levels of assistance for those receiving primary income support benefits or in low paid jobs. Other payments include a maternity allowance, cash payments for all low-income parents caring for children, an extensive system of assistance with childcare costs, and some assistance through the taxation system. Those renting privately may be entitled to assistance with housing costs.
- Benefits are subject to income and assets tests, but these are generous compared to the means tests applying to social assistance in other Organisation for Economic Cooperation and Development (OECD) countries. Benefits (in one form or another) are effectively available on an indefinite basis, subject to the means tests. Because payments are not contributory, coverage of the system is universal, subject to a range of residence requirements. In addition, payments for the unemployed are subject to an activity test, but payments for sole parents are not. Because of the relatively relaxed income tests, it is possible to combine receipt of income support with part-time work (and full-time work for sole parents).
- Despite the range of categories, there is a fair degree of uniformity across payment types, although the system has become more complex in the last decade. Benefits are paid by the Commonwealth government, with the same rates and conditions applying across all states. Benefits are entitlements, and there is a well-developed system of rights of appeal.
- In addition to government-funded cash benefits, there is a mandatory system of private superannuation for retirement, financed by a 7 per cent contribution from employers (rising to 9 per cent), and covering more than 80 per cent of the workforce. Contributions accumulate in individual accounts; while this system is funded, it was introduced in the early 1990s and will not mature until well into the 21st century. Workers compensation is also funded directly by employers, and most employees are also covered for paid sick leave under the Australian industrial relations system. There is also a very high level of home-ownership, particularly among the aged.
- Six million Australians (or about one-third of the population) receive income-tested transfer payments from the Government. Of these, 1.2 million receive family payments only. The remainder receive income support payments from social security (4.0 million), service pension (0.3 million) or student assistance (0.4 million).

- The highest rate of receipt is among those of age pension age, of whom 78 per cent receive income support, compared with 23 per cent of the population aged between 15 and pension age.
- In 1997–98, just under 30 per cent of all income units in Australia received government cash transfers as their principal source of income, with around 23 per cent receiving 90 per cent or more of their total income from cash transfers. The proportion of income units receiving 90 per cent of their income or more from cash benefits ranged from 8.3 per cent of couples with children to 36.8 per cent of sole parents, and from 15.0 per cent of those below pension age to 56.5 per cent of income units aged 65 or more.
- Estimated expenditures on the social security system in 1997–98 are \$42 billion, around 30 per cent of Commonwealth outlays, and 7 per cent of Gross Domestic Product (GDP). Social security spending roughly doubled from 3 to 6 per cent of GDP between 1972 and 1978, and has generally stayed above 6 per cent of GDP since then (apart from a few years in the late 1980s).
- Changes in spending on social security have been caused by a combination of factors, including the ageing of the population, increasing unemployment, family change, and policy decisions. Policy changes have involved extending assistance to new groups and have substantially increased the real level of payments for most groups of customers. In the 1970s, there was a move to extension of the principle of universal assistance, particularly for age pensioners. In the 1980s, payments have become substantially more targeted, mainly through the reimposition of income and assets testing.
- Increasing interaction between social security income tests, the taxation system and other forms of assistance has resulted in very high effective marginal tax rates over the range where payments are reduced, particularly for families with children. This may be associated with the creation of ‘low income traps’.
- Increases in real rates of payments are likely to have reduced poverty among social security recipients, although the increase in the number of customers has increased vulnerability to poverty. At the same time, the proportion of social security recipients with income in addition to their payments has increased, and the level of private income has increased for many groups. Benefits have also been extended to lower income families in the workforce.
- Because of differences in the approach to technical issues involved in the measurement of poverty and inequality, there is no consensus in research on estimated trends in poverty and inequality in Australia. Whatever measure is used, trends in overall inequality are not strong. Poverty can be estimated to have risen by 60 per cent or fallen by 20 per cent depending on the measure adopted.
- Spending on social security in Australia is at the low end of the scale of developed countries, reflecting the much greater emphasis in Australia on targeting assistance to low-income groups. As a result, Australia has less ‘middle class welfare’ than virtually all other developed countries. Correspondingly, levels of tax revenue in Australia are also among the



lowest of all OECD economies; the structure of the tax system is one of the most progressive in the OECD. While these features of the social security and tax systems appear to reflect community commitment to redistribution, they may potentially limit government flexibility in responding to future pressures on social security expenditure.

- There will be pressures for further increases in social security spending over the next 20 to 30 years, partly due to continued population ageing and also because of policy commitments to maintaining and improving the real level of payments. Adverse labour market trends could exacerbate these cost pressures. There are factors likely to assist in maintaining the sustainability of the system, including the increases in the private income of social security recipients, and, in the longer run, the maturation of the mandatory superannuation system. The 'affordability' of the social security system, however, is fundamentally dependent on trends in the labour market and the attitudes that the community holds in regard to social security spending.

# 1 Introduction

The objective of this paper is to provide a factual overview of the Australian system of income support within the broader context of social protection policies. The paper is intended to highlight for visiting economists those features of the Australian income support system and its social and institutional context that differ from those existing overseas, particularly in the United States and the United Kingdom. This discussion is also particularly focused on factors that are relevant to discussions of incentive and behavioural issues.

The paper is structured as follows. Section 2 provides a description of the Australian income support system and puts it into the broader context of social protection. This section describes the current structure of assistance, including the operation of the income and assets tests applied to different payments.

Section 3 describes trends in spending on public income support in Australia, and discusses the factors influencing the level of social security spending. The second part of this section compares the level and composition of social protection spending in Australia and other Organisation for Economic Cooperation and Development (OECD) countries. This discussion highlights the targeted nature of the Australian social security system and shows how the extent of targeting has increased over the past 15 years.

Section 4 looks in more detail at current patterns of receipt of pensions and allowances. This discussion is based on estimated rates of receipt of payments by age and by income unit (nuclear family) type. This section also discusses data on duration of receipt of different payments.

Section 5 discusses changes in the Australian labour force over the past 20 years or so, including trends in unemployment and employment to population ratios for different age-sex groups. This section also compares these aspects of Australian employment performance with similar trends in other OECD countries over this period. Section 6 discusses trends in poverty and income inequality in Australia, and also provides a range of international comparisons of the relative generosity of the benefit safety net in Australia.

Section 7 concludes by bringing together the main threads of the discussion.

## 2 Income support and social protection in Australia

### 2.1 The social protection system: overview

The Australian social protection system comprises:

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

- *other cash and in-kind welfare benefits and services*, such as subsidised child care, public housing and transport, domiciliary and residential care services for aged and disabled people, rebates on local government property taxes for pensioners and reductions in charges for utilities such as water, electricity and gas. These are provided at Commonwealth, State and local levels, with the Commonwealth Government providing additional funds for them to other levels of government.

In addition, there are concessions within the personal income tax system, for example, for most families with children, plus additional assistance for all single-income families with a child under five years, for sole parents, for dependent spouses (with a higher rate for those with children) and for medical expenses.

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

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

In 1996–97, Commonwealth health outlays amounted to an estimated \$19.3 billion, which was almost 15 per cent of total Commonwealth Government outlays and just under 3.7 per cent of Gross Domestic Product (GDP).

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

Responsibility for providing **housing assistance** to people on low incomes is shared by the Commonwealth and State/Territory Governments. At the Commonwealth level, the former Department of Social Security assumed responsibility for housing assistance in March 1996. Housing assistance is provided through two key strategies:

- the Commonwealth Government provides income support for rental housing costs in the private sector in the form of Rent Assistance payments through the social security system;
- the Commonwealth and State Governments fund the provision of public and community housing through the Commonwealth–State Housing Agreement (CSHA).

The CSHA also includes:

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

**Community and welfare services** assist such groups as families and children in need, people with disabilities, older people, Indigenous people and migrants. Funding for services is provided by Commonwealth, State and local governments. In 1993–94, services for the aged and people with disabilities accounted for just over 58 per cent of outlays by all levels of government on community and welfare services, family and child welfare services accounted for 30 per cent, with the remaining 12 per cent going to other services. All levels of government are also involved in the delivery of services, as are non-government organisations (NGOs).

The Commonwealth Government is the major provider of funds for community and welfare services but directly delivers only a small amount of them. In 1993–94, it provided just over half of the public sector funding for such services, but delivered just under 6 per cent of them. State/Territory Governments provide both substantial funding and a large number of direct services (just under half of total funding and just over 40 per cent of direct services in 1993–94). Local governments have a very small role in the funding of services, but a larger role than the Commonwealth in the delivery of them (around 1 per cent of the funding and 8 per cent of services delivered in 1993–94).

There has been a major growth in the number of NGOs involved in service delivery since the 1970s. Increasingly NGOs have come to be seen by governments as providing cost-effective and appropriate ways to deliver services at the local level. As part of the growing recognition of their role, government subsidies to NGOs at both Commonwealth and State levels have risen over the past two decades. Approximately 80 per cent of Commonwealth funding for community and welfare services, including funding provided under the Emergency Relief Program to assist people in crisis, now goes directly or via State Governments to the non-government sector. Considerable direct financial support to NGOs is also provided through voluntary donations by the Australian community.

The Commonwealth Government provides direct and indirect forms of assistance to families to reduce the costs of **child care**. Childcare Assistance provides subsidies for low to middle income families using childcare services approved under the Commonwealth Government's Children's Services program. It is paid direct to childcare providers to reduce the costs of child care for eligible families. The scheme has been administered by the then Department of Health and Family Services (DHFS) and then jointly by DHFS and Centrelink (see Section 2.3). The Childcare Cash Rebate (CCR) pays families a percentage of their work-related childcare costs (net of any Childcare Assistance provided) for care by formal or informal carers who are

registered with the federal Health Insurance Commission (which administers Medicare). CCR provides families with cash reimbursement after they have paid for child care. Policy responsibility for child care is now within the Department of Family and Community Services.

The **Child Support Scheme** is intended to improve financial support for children of separated parents whereby both parents share in the cost of supporting their children according to their capacity to contribute. Under Stage One of the scheme, which began on 1 June 1988, the Child Support Agency (CSA) collects child support payable under court orders or registered agreements. Under Stage Two, which began on 1 October 1989, the CSA uses a legislative formula to assess child support liabilities for people who separated or who had a child born on or after that date. Payments collected by the CSA are paid out to payee parents by the Department of Social Security (DSS). Child support payments reduce by 50 cents in the dollar the higher rate of Family Allowance received by payee parents.

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

Since 1992, Australia has had a compulsory, occupational-based, superannuation (private pension) system. Under the **Superannuation Guarantee**, employers are required to make, on behalf of their employees, prescribed minimum contributions to complying superannuation funds. The required minimum contribution was set at 3 per cent of employee earnings in 1992, rising to 9 per cent in 2002–03. The required minimum contribution is 6 per cent for 1996–97 and 1997–98, 7 per cent for 1998–99 and 1999–2000, 8 per cent for 2000–01 and 2001–02 and 9 per cent for 2002–03. Employers who fail to make prescribed minimum contributions to a complying superannuation fund must pay a tax, namely the Superannuation Guarantee Charge (SGC). The charge requires employers to pay to the Australian Taxation Office an amount equivalent to the contributions (plus interest) that they should have paid directly to a superannuation fund on behalf of their employees, plus administrative and any late payment penalty charges. The SGC is not a tax-deductible expense to employers, whereas direct payments to complying superannuation funds generally are. It is estimated that in 1996, 6.3 million or approximately 89 per cent of both public and private sector employees were covered by superannuation. Most of the 11 per cent of employees with no superannuation fall below the income threshold for the Superannuation Guarantee.

A particularly distinctive feature of Australian social arrangements is the role of **labour market and workplace relations** institutions. After a series of major industrial disputes in the 1890s, the colonial governments set up a range of machinery to address issues of conciliation and arbitration of industrial disputes, and wage rates (in some States). A Commonwealth Court of Conciliation and Arbitration was established in 1904. According to Creighton and Stewart (1990), the basic legal character of the federal conciliation and arbitration system remained unchanged over the subsequent 85 years. The two primary characteristics of the system were the use of a permanent and independent tribunal funded publicly to exercise the conciliation and arbitration function, and that the system was compulsory in that parties were compelled to submit differences for resolution. The Court's resolutions were legally binding. The system developed into a mechanism for establishing and implementing minimum labour standards,

including wage rates, hours of work, annual leave, sick leave, allowances and notice of termination payments. Among the most visible manifestations of this at different periods were national wage cases to determine the adjustment of wages in relation to inflation and productivity changes. The most famous case was the 'Harvester' case in 1907, where, in a case concerned with tariff protection, Justice Higgins set out the principle of the basic wage, essentially a minimum wage for an unskilled adult male labourer. This system gave considerable influence to trade unions. In the middle of the 1980s, the basic terms and conditions of around 83 per cent of the employed workforce were governed by the awards and determinations of the State and federal tribunals.

Since the late 1980s, there have been substantial changes in the structures and processes underlying industrial relations. There has been a shift in the level at which bargaining takes place, towards a hybrid system that places emphasis on agreements at the enterprise and workplace level (Hawke and Wooden 1998). Following a decision of the Australian Industrial Relations Commission (AIRC) in 1991, enterprise bargaining has become more common. Formal changes have been accompanied by shifts in the structure and role of trade unions. Membership declined from around 50 per cent of the workforce in 1976 to 31 per cent in 1996, concentrated in a small number of large industry and multi-industry unions.

A major development under the 1997 *Workplace Relations Act* was that for the first time agreements could be struck directly between employers and workers, without union intervention if desired, and would be recognised as legally binding before the Industrial Relations Commission. In April 1997, the AIRC established a federal minimum award wage of \$359.40 per week for a 38-hour week (\$9.45 per hour).

Two other features of Australia's institutional and social environment are worth mentioning. Australia has long been a nation of immigrants, and high post-war migration saw the population increase from 7.4 million in 1945 to 18.5 million in 1997. Among OECD countries, Australia has the second highest share of foreign-born in the labour force (26 per cent). Most other OECD countries have immigrant shares of between 3 and 10 per cent of the total labour force. For most of the 1980s, Australia had net migration rates more than twice as high as the next OECD country (excepting Germany, which had extremely high net migration in 1989).

Second, Australia is highly urbanised and has a distinctive urban structure and form, and aspects of its housing arrangements differ significantly from those in Europe and America. Most Australians live in the State capital cities. Over 55 per cent of Australians live in the largest five cities, each of which has a population of over one million. A further 9 per cent live in cities of over 100,000. All of these cities, with the exception of Townsville, either are a capital, or can be considered as part of a greater urban agglomeration of one of the capitals. Around 10 per cent live in cities of 20,000 to 100,000 persons and 14 per cent in small cities and towns (1,000 to 20,000) with 11 per cent in rural locations. This contrasts significantly with the experience of Europe and America. Major cities tend to play a much more important role in Australia's urban structure, with a much smaller proportion of the population living in small and medium sized cities.

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

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

Home-ownership rates in Australia have been high throughout most of the post-war period, climbing from 53.4 per cent in 1947 to around 70 per cent by 1960 and remaining around this rate for the past 3½ decades. This achievement has been underpinned by explicit and implicit government policies. These have included:

- Direct aid has been provided to first home buyers. While currently there is only limited direct assistance through some small State Government programs, up until the 1980s the Commonwealth provided first home buyer grants.
- It is generally considered that there have been large subsidies provided through infrastructure provision in urban fringe land development.
- Owner occupied housing is exempted from capital gains legislation and does not incur any taxation on its imputed rental value. It is also treated concessionally in pension and other social security assessment.

The private rental sector in Australia has always been a significant provider of housing. In the 1996 census, it was estimated that the sector provided 1.4 million dwellings, around 22 per cent of all units. The sector, while traditionally having been viewed as a 'stepping stone' to home-ownership, caters for a diverse set of different needs. The sector plays particularly important roles in providing housing for single-person households and sole parents. It is estimated that, in 1994–95, 26.5 per cent of households in the sector spent more than 30 per cent of their net income on housing costs, even after taking account of rent assistance payments from government.

The estimated 392,000 public rental dwellings in Australia represent around 6 per cent of housing stock. This sector is largely funded by the Commonwealth Government, and managed by State Governments under the Commonwealth–State Housing Agreement. The sector grew rapidly in the post-war period, responding to a range of needs including slum clearance and the need for housing associated with industrial development policies as well as responding to the overall post-war housing shortage. Over the past two decades, the role of the sector has changed dramatically, and currently 80 per cent of residents receive rebated rents, generally set at between 20 and 25 per cent of income. It is estimated that the average value of these rebates



is \$73 per week. It is estimated that 41 per cent of public housing is in locations with less than 25 per cent of public housing, 26 per cent is in locations with between 25 and 50 per cent and the balance of 33 per cent is in locations where more than half the housing is public rental.

## 2.2 Income support: overview and objectives

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

Consideration of government policy statements suggests that there are two long-standing values that provide the basis of the Australian income support system. One is the recognition of government and community responsibility to assist those in need. The other is that private provision outside the social security system is to be encouraged as far as possible, with the income support system seen primarily as a safety net. This distinguishes Australia from most other developed countries—the **primary** focus of Australia's social security system is protection against poverty.<sup>1</sup> In most other OECD countries, the primary principle is one of income maintenance across an individual's life-cycle, although many have poverty relief as an important additional objective.

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

Benefits are subject to income and assets tests, but these are generous compared to the means tests applying to social assistance in other OECD countries, probably reflecting the absence of social insurance arrangements. Benefits (in one form or another) are effectively available on an indefinite basis, subject to the means tests. Because payments are not contributory, coverage of the system is universal, subject to a range of residence requirements. In addition, payments for

the unemployed are subject to an activity test, but payments for sole parents are not. Because of the relatively relaxed income tests, it is possible to combine receipt of income support with part-time work (and full-time work for sole parents).

Responsibility for income support policy rests predominantly at the Commonwealth level. In 1997–98, Commonwealth spending on ‘social security and welfare’ amounted to 93 per cent of total outlays of all levels of government devoted to that purpose, with 98 per cent of personal benefit payments in this category being Commonwealth outlays. Other aspects of social protection are more evenly shared between the Commonwealth and the States. Commonwealth health spending is 66 per cent of the total, and Commonwealth spending on education and housing and community amenities is 43 and 18 per cent of their respective totals. Around 72 per cent of total Government outlays are the responsibility of the Commonwealth (Australian Bureau of Statistics, *Government Finance Statistics 1997–98*, Cat. No, 5512.0). As a Commonwealth responsibility, levels and conditions of income support payments are uniform across the States.<sup>2</sup>

## 2.3 The current structure of income support

The government income support system comprises:

- twenty-two income support payments divided between two classes, pensions and benefits.<sup>3</sup> These are designed to provide a subsistence standard of living for an adult. An individual cannot receive more than one income support type at a time;
- eleven payments in respect of dependent children. These are not mutually exclusive and most are elements of an umbrella-category Family Allowance;
- Rent Assistance, paid at five maximum rates according to family composition;
- four income supplements.

Table 1 provides details of the major income support payments and a number of related programs. The table provides details of the current level of benefits, the major eligibility criteria for payments, and the parameters of the income tests.<sup>4</sup>

As noted, social security payments are funded through general revenue and are paid at flat maximum rates. Income support payments and most supplementary payments are income and assets tested.<sup>5</sup> Eligibility for different income support payments is based on the reason a claimant is unable or not expected to support himself or herself through paid work. These reasons are illness or disability, parenting or caring responsibilities, age or unemployment, and participation in full-time education or long-term training. Only the unemployment payments, currently Newstart and Youth Allowance, are subject to an activity test, although eligibility for Carer Payment is based on the level of care actually provided.

**Table 1: Income support and related payments and programs, September to December, 1998**

Payment/Program	Level of Benefit	Free Area/Disregard	Withdrawal Rate	Cut-Out Point	Eligibility	
<b>Pensions</b>						
<b>Age</b>						
Single	\$357.30 pf	\$100 pf	50%	\$825.40 pf	Males 65 years and over; females 61 years and over.	
Couple	\$298.10 pf each	\$176 combined +\$24 pf for each child	25% each	\$1,379.20 pf combined +\$24 pf for each child		
<b>Disability Support</b>						
<b>Single</b>						
<b>&lt;18 years</b>						
At home	\$220.50 pf	\$100 pf	50%	Depends on age, but up to \$825.40 pf \$1,379.20 pf combined +\$24 pf for each child	Aged 16 to pension age, unable to work full-time for at least next 2 years due to disability, with rating of at least 20 points on impairment tables.	
Independent	\$315.10 pf	\$100 pf	50%			
<b>18–20 years</b>						
At home	\$249.90 pf	\$100 pf	50%			
Independent	\$340.60 pf	\$100 pf	50%			
20 years and over	\$357.30 pf	\$100 pf	50%			
Couple	\$298.10 pf each	\$176 combined	25% each			
Wife (of pensioner)	\$298.10 pf	\$176 combined +\$24 pf for each child	25% each	\$1,379.20 pf combined +\$24 pf for each child	Wives of above, not qualified in own right. Closed to new applicants	
<b>Carer</b>						
Single	\$357.30 pf	\$100 pf	50%	\$825.40 pf	Providing full-time care or constant supervision to another adult in their own home	
Couple	\$298.10 pf each	\$176 combined +\$24 pf for each child	25% each	\$1,379.20 pf combined +\$24 pf for each child		
<b>Parenting Payment</b>						
Single — Pension	\$357.30 pf	\$100 pf +\$24 pf for each child	50%	\$825.40 pf +\$24 pf for each child	Sole parent with dependent child under 16 or CDA child 16+	

**Table 1: Income support and related payments and programs, September to December, 1998 *continued***

Payment/Program	Level of Benefit	Free Area/Disregard	Withdrawal Rate	Cut-Out Point	Eligibility
<b>Allowances</b>					
<b>Newstart</b>					
Single, 18–20, at home	\$174.80 pf	\$60 pf	50% to \$140 pf, 70% after	\$332.57 pf	Unemployed and actively looking for work. Aged 21 and over, except saved cases.
18–20, away from home	\$265.50 pf			\$462.14 pf	
21 or over	\$323.40 pf	\$544.86 pf			
60 or over, after 9 months	\$349.90 pf	\$582.71 pf			
Single, 18+, with children	\$349.90 pf	\$582.71 pf			
Couple, 18–20, no children	\$265.50 pf	\$462.14 pf			
Couple, each 21+, no children	\$291.80 pf	\$499.71 pf			
Couple, with children	\$291.80 pf	\$499.71 pf			
Partner	See Newstart	See Newstart	See Newstart	See Newstart	For partners of income support recipients with barriers to employment related to previous limited participation
<b>Parenting Payment</b>					
Partnered — Benefit	\$291.80 pf	\$60 pf	50% to \$140 pf, 70% after		
<b>Youth Allowance</b>					
Single, no children <18 at home	\$145.40 pf	Unemployed: \$60 pf Full-time Students: \$230 pf	Unemployed: 50% to \$140 pf, 70% after Students: 50% to \$310 pf, 70% after	Various	Students <25, unemployed 16–20 years. Parents' income in previous financial year reduces entitlement by 25% of combined parental income over \$23,400 pa, plus \$1,200–\$7,400 for other children. No income test if parent on income support.
<18 away from home	\$265.50 pf				
18+ at home	\$174.80 pf				
18+ away from home	\$265.50 pf				
Single with children	\$347.80 pf				
Couple, no children	\$265.50 pf				
Couple with children	\$291.60 pf				
Widow		See Newstart	See Newstart	See Newstart	

**Table 1: Income support and related payments and programs, September to December, 1998 *continued***

Payment/Program	Level of Benefit	Free Area/Disregard	Withdrawal Rate	Cut-Out Point	Eligibility
Sickness	See Newstart	See Newstart	See Newstart	See Newstart	Between 21 and age pension age, with temporary incapacity for work or study, and medical certificate
Mature Age					60+ years and less than pension age, receiving income support for at least 9 months, and no recent workforce experience
Single	\$349.90 pf	\$60 pf	50% to \$140 pf, 70% after		
Couple	\$291.80 pf each				
Special Benefit	Discretionary, but cannot exceed Newstart or Youth Allowance	Nil	100%	Same as payment level	Ineligible for other payment, and unable to earn or obtain livelihood
<b>Other programs</b>					
Child Care Assistance	Scheduled fee of \$115 pw per child in care reduced by 83.04% for 1 child in care, 90.43% for 2 children and 93.62% for 3 children. Minimum fee of \$19.50 for one child, \$22 for 2 or more.		12.9% with one child in care, 21.7% for 2 children in care	\$65,743 pa for one child, \$77,084 for two, \$94,095 for three or more	
Public Housing (NSW as example)	Rent is rebated to percentage of income until market rent payable. Rebates vary by state, but average rent for those assisted is between 20 and 25% of gross income	(\$350 pw base income at June 1995)	Sliding scale, rising from 20% below base income by 1.7% for each dollar until 25% reached	Rent 25% of income from \$650 pw on (1995)	Combined family income below set levels, increasing with number of persons. Waiting lists, with consideration of homelessness, health problems, disability, domestic violence and inability to use other options

**Table 1: Income support and related payments and programs, September to December, 1998 *continued***

Payment/Program	Level of Benefit	Free Area/Disregard	Withdrawal Rate	Cut-Out Point	Eligibility
<b>Family Payments</b>					
More than Minimum Rate of Family Allowance	\$96.40 pf per child under 13; \$125.40 pf each child 13–15; \$23.50 pf each student 16–18	\$23,400 pa for one child, plus \$624 for each extra child	50%	Minimum rate only payable from \$27,191 (child under 13) plus \$4,415 per extra child; \$28,699 (child 13–15) plus \$5,923 per extra child.	Children under 16, or full-time dependent students 16–18
Minimum Rate of Family Allowance	\$23.50 pf per child	\$65,941 pa one child, plus \$3,298 for each extra child	“Sudden Death”	\$65,941 pa one child, plus \$3,298 for each extra child	Children under 16, or full-time dependent students 16–18
Large Family Supplement	\$7.70 pf for 4th and each extra child	See Minimum Rate of Family Allowance	50%	See Minimum Rate of Family Allowance	Children under 16, or full-time dependent students 16–18
Guardian Allowance	\$37.70 pf for sole parents receiving more than minimum rate of Family Allowance	Reduced after More than Minimum Rate of Family Allowance	50%	See More than Minimum Rate of Family Allowance	Children under 16, or full-time dependent students 16–18
Maternity Allowance	One-off payment of \$750 per child	See Minimum Rate of Family Allowance	50%	See Minimum Rate of Family Allowance	Paid for each new child born to families entitled to Family Allowance
Maternity Immunisation Allowance	One-off payment of \$200	See Minimum Rate of Family Allowance		See Minimum Rate of Family Allowance	For immunised 18 month child, born after 1/1/98
Multiple Birth Allowance	\$94 pf for triplets; \$125.40 per fortnight for quads and above	See Minimum Rate of Family Allowance	50%	See Minimum Rate of Family Allowance	
Family Tax Payment					
Part A	\$7.70 pf per child	Paid to those receiving more than minimum rate of Family Allowance	50%	See Family Tax Initiative	Children under 16, or full-time dependent students 16–18
Part B	\$19.24 pf per family with at least 1 child under 5 years				

**Table 1:** Income support and related payments and programs, September to December, 1998 *continued*

Payment/Program	Level of Benefit	Free Area/Disregard	Withdrawal Rate	Cut-Out Point	Eligibility
<b>Family Payments</b> <i>continued</i>					
Basic Parenting Payment	\$65.50 pf	\$60 pf of personal income	50% to \$140 pf 70% over \$140 pf	\$176.43 pf personal income	Reduced by amount of DSR with children
Child Disability Allowance	\$75.10 pf	No income or assets test			Child with disability requiring additional care and attention
Double Orphan Pension	\$37.60 pf	No income or assets test			Care and control of a double orphan

**Table 1:** Income support and related payments and programs, September to December, 1998 *continued*

Payment/Program	Level of Benefit/ Allowance	Income Test Free Area/ Disregard	Withdrawal Rate	Cut-Out Point	Eligibility
<b>Tax Measures</b>					
Family Tax Initiative					
Part A	A. \$1,000 pa per child increase in tax threshold (\$200 rebate)	\$70,000 pa plus \$3,000 pa for each extra child	“Sudden Death”	A. \$70,000 pa plus \$3,000 pa for each extra child	Children under 16, or full-time dependent students 16–18
Part B	B. \$2,500 pa per family increase in tax threshold (\$500 rebate), for sole parents and couples where partner earns under \$4,573 pa	\$65,000 pa plus \$3,000 pa for each extra child		B. \$65,000 pa plus \$3,000 pa for each extra child	
Sole Parent Rebate	\$1,243 pa	No income test			Child or student must have income below \$1,785
Dependent Spouse Rebate					
No children	\$1,324 pa	No income test on primary earner; \$282 pa for dependent spouse	25% for income of spouse	\$5,578 pa of spouse income with no children; \$6,090 pa with children	Child or student must have income below \$1,785
With children (Reduced by amount of Basic Parenting Payment)	\$1,452 pa				
Low Income Rebate	\$150 per year rebate of tax	\$20,700 pa	4%	\$24,450	
Pensioner Rebate					
Single	\$1,260 pa	\$11,700 pa	12.5%	\$21,780 pa	
Couple	\$890 pa each	\$9,880 pa		\$17,048 pa	
Beneficiary Rebate	20% of difference between taxable allowance and tax threshold	No direct income test Effectively reduced by allowance income test			



**Table 1:** Income support and related payments and programs, September to December, 1998 *continued*

Payment/Program	Income Test Free Area/ Level of Benefit	Disregard	Withdrawal Rate	Cut-Out Point	Eligibility
<b>Supplementary Payments</b>					
Rent Assistance	75% of rent above threshold up to:	Withdrawn after other income support payments	Either at 50%, 70% or 100%	After cut-out points for other payments	Above rent levels:
Single , no children	\$75.20 pf				\$72 pf
Single, no children, sharer	\$50.20 pf				\$72 pf
Single, 1 or 2 children	\$88.00 pf				\$117.20 pf
Single, 3+ children	\$99.40 pf				\$94.80 pf
Couple, no children	\$71.00 pf				\$94.80 pf
Couple, 1 or 2 children	\$88.00 pf				\$140 pf
Couple, 3+ children	\$99.40 pf				\$140 pf
Pharmaceutical Allowance	\$5.40 pf single, \$2.70 pf each of couple	Withdrawn after other income support payments	Not reduced while any entitlement remaining, then "sudden death"	After cut-out point for income support	Payable to pensioners, sickness allowees, NSA incapacitated, long-term allowees 60+
Remote Area Allowance					
Single	\$17.50 pf	Paid while receiving income support	"Sudden Death"	Pension/Allowance cut-out	Usually resident in Tax Zone A and Special Tax Zone B. Reduces tax zone rebates 100%
Couple	\$15.00 pf each				
Each child	\$7.00 pf				
Mobility Allowance	\$56.70 pf	Income test free			People with disabilities in paid / voluntary work, vocational training or job search
Pensioner Concession Card	Concessions, include telephone, post, pharmaceuticals. Reduced: fares on public transport, property/water rates, energy bills, vehicle registration, and private charges.	Paid while receiving income support	"Sudden Death"	Pension/Allowance cut-out	Pensioners and older long-term allowees.
Telephone Allowance	\$62.40 pa single \$31.20 pa each of couple	Paid to those receiving a pension and long-term allowees 60+	"Sudden Death"	Pension/Allowance cut-out	Pensioners and older long-term allowees telephone subscribers

Participation in full-time paid work does not itself preclude eligibility for income support for pensioners. To receive unemployment payments (Newstart and Youth Allowance), recipients must be looking for full-time work. All payments allow recipients to combine some earnings with income support, although for a minority of payments there is a restriction on the permissible hours of work. With the growth in part-time work, these restrictions have been progressively relaxed to improve work incentives.

Rates and income and assets tests are standardised for pensions and are more generous than the standard rates and income and assets tests for allowances. A number of other conditions for pensions are more generous than for allowances. The classification of payments to people of workforce age into pensions and allowances reflects historical developments.

Family payments are payable to families with children (usually to the mother). The minimum rate of Family Allowance, formerly a universal payment, and Family Tax Payment Part A are supplements designed to recognise the additional costs faced by families with children as against those without. They are income-tested but at relatively high income levels (Family Allowance is also assets tested). The more than minimum rate of Family Allowance was designed to provide more substantial assistance towards the cost of children in low-income families and to ensure that families in low paid work are not worse off financially than those entirely reliant on income support. There are a number of supplementary family payments, of which the most significant are Family Tax Payment Part B for single-income families with one child aged under 5 and Guardian Allowance for sole parents. Rent Assistance is payable to income support or more than minimum rate family payment recipients in private rental accommodation.

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

Until June 1997, the social security system was administered by the Department of Social Security (DSS). All social security payments and services are now administered by Centrelink. As well as administering social security payments and services, Centrelink is responsible for Childcare Assistance, some employment assistance services previously provided by the Commonwealth Employment Service and student assistance programs of the former Department of Employment, Education, Training and Youth Affairs. Centrelink will continue to expand its role in the delivery of social protection services currently provided by other Commonwealth agencies.

From July 1997, DSS continued to have responsibility for social security policy development, research and evaluation, the design of social security programs and the provision of advice to the Minister for Social Security. It established a strategic partnership agreement with Centrelink to deliver social security programs and services under a 'purchaser-provider' arrangement. In October 1998, DSS was replaced by the new Department of Family and Community Services (FaCS), which absorbed all the responsibilities of DSS, plus policy responsibilities for child care, assistance for people with disabilities, and family services. The Child Support Agency (CSA) and CRS Australia (formerly the Commonwealth Rehabilitation Service) also form part of the department.

## 2.4 Means testing, Australian-style

### *A short history of means testing*

Means testing has long been a fundamental feature of the Australian system of income support, although its history has been chequered. Like the early pension systems of New Zealand and Scandinavia, age pensions in Australia were income-tested at their inception. In fact, consideration had been given to a social insurance system, but this approach was explicitly rejected as being administratively costly and providing insufficient coverage (Neild 1898). Following Federation, the Royal Commission of 1905–06 also rejected a social insurance scheme based on the German model as inappropriate in Australia. A social insurance plan was again put forward in 1928, but lapsed when the Government lost office in 1929. In 1938, Federal Parliament actually passed legislation introducing such a scheme, but the legislation lapsed at the outbreak of World War II. The more comprehensive system of payments introduced in the early 1940s was non-contributory and financed from general revenue;<sup>6</sup> with the exception of child endowment, payments were means-tested.

During the 1960s and 1970s, various social insurance approaches were again recommended. There was also a range of initiatives to abolish the means test on age pensions. Major steps towards a universal age pension were made in 1969, with the introduction of the 'tapered means test' with a 50 per cent rather than a 100 per cent withdrawal rate.<sup>7</sup> In 1972, the pension-free areas were doubled, in 1973 the newly elected government abolished the means test for those aged 75 years and over, and in 1975 the government abolished the means test for those aged 70 to 74 years. In 1976, the existing means test was replaced by a test on income alone. During this period, a National Superannuation Inquiry was set up, and in 1976 it recommended the introduction of a free-of-means-test basic pension, supplemented by an earnings-related pension, and a supplementary pension for those below a specified minimum, to be financed by a compulsory contribution. These proposals were formally rejected in 1979.

The move towards a universal age pension in the first half of the 1970s was accompanied by substantial increases in real rates of payments and the introduction of new benefits (for example, for sole mothers). Tax rebates for children were cashed out in the form of increased family allowances. These initiatives also coincided with substantial increases in unemployment, and a large increase in overall social security spending (see below). From the second half of the

1970s on, attention focused on reducing the federal budget deficit. The rates of the income-test-free pension were frozen in 1978, and in 1983 the pension for those aged 70 years and over was again subjected to the income test. In 1985, the assets test on pensions was reintroduced.

The second half of the 1980s saw the establishment of a Social Security Review, which made wide-ranging recommendations for reform of all major aspects of the income support system. The review argued, however, that the opportunity for introducing a government social insurance system for the aged had passed (Foster 1988). The second half of the 1980s also saw renewed emphasis on increased targeting. This was achieved through a wide range of mechanisms, including tightening of eligibility conditions for some payments, income-testing of the then universal cash payment for children, and directing increased assistance to defined target groups, including low-income families with children, and income support recipients with high private rental costs. There has also been increased attention to improving compliance and reducing fraud. The Child Support Scheme was introduced to improve collection of maintenance payments, and the Jobs, Education and Training (JET) scheme was established to assist sole parents seeking employment on a voluntary basis.

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

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

- to encourage part-time and casual work, the allowance income test withdrawal rate was modified, by lowering the maximum withdrawal rate from 100 per cent to 70 per cent for income over a \$140 per fortnight threshold and by abolishing the earnings disregards;
- to recognise the workforce potential of married women, there was a requirement that both members of a couple qualify for payment in their own right, accompanied by:
  - the introduction of Parenting Allowance;
  - the restriction of Partner Allowance to people born before 1 July 1955 with no recent workforce experience;
  - a general requirement for partners born after 1 July 1955 who do not have dependent children to qualify for an activity tested unemployment payment;
  - changed income-testing arrangements for allowee couples, so that each partner is assessed on their own income, with one partner's income affecting the other's only if it is sufficient to preclude the payment of their own allowance.

Since 1996, the Government has taken a range of decisions that, while maintaining the basic structure of income support for unemployed people, have achieved significant savings by tightening administrative requirements and encouraging greater self-reliance. The major

measures were aimed at tightening the job search obligations placed on Newstart allowees. They sought to ensure that customers seek out and accept work opportunities that provide a greater level of self-support, including part-time and casual work opportunities, and accept assistance that will enhance their employment prospects.

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

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

In 1997, the Government introduced a new 'Work for the Dole' scheme to provide young people with the opportunity to acquire work experience, skills and habits on projects of value to local communities.

### *Current arrangements*

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

'Assets' are generally a person's property. Certain items of property are not included as assets, the most significant of which is a person's principal residence.<sup>8</sup> Other items may be disregarded depending upon their nature and the use to which they are put.

The rate of pension is calculated under both the income and assets tests. The test that results in the lower rate is the one that applies. Most pensioners (95 per cent) are assessed under the income rather than the assets test.

As can be seen from Table 1, the amount of income a person may receive before pension is reduced (called the 'free area') is dependent upon marital status and the number of dependent children. As at September to December 1998, a single person may receive A\$100 per fortnight before pension is reduced, a partnered person may receive A\$176 per fortnight (combined) before pension is reduced, and an amount of A\$24 per fortnight is added for each dependent

child. Income in excess of these free areas reduces pension entitlement by 50 cents in the dollar (for a single person) and 25 cents each in the dollar for a couple. The operation of the income test produces ‘cut-out points’, which are the private income levels at which benefit payments are reduced to zero. Between September and December 1998, these ‘cut-out points’ are A\$825.40 per fortnight for a single person and A\$1379.20 per fortnight for a couple. The pension income cut-out points (with the exception of the child deduction amount) change in March and September, in line with CPI changes to the base pension amounts, and in July in line with CPI changes to the free areas.

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

### Assets tests

The assets tests differ for pensions, allowances and family payments. The assets thresholds are the same for pensions and allowances, but a pension is tapered above these thresholds, by \$3 per fortnight for every \$1000 of assets. For allowance recipients, there is a ‘sudden death’ disqualification. The amount of assets a person may have before pension is reduced is dependent upon marital status and home ownership. A person’s principal residence is not included in the assessment of assets. At September to December 1998, the thresholds for pensions (and disqualification limits for allowances) are as follows:

#### Assets test thresholds and disqualification limits

	Asset threshold amounts	Asset disqualifying limits (for pensions)
Single, home-owner	\$125,750	\$246,750
Single, non home-owner	\$215,750	\$336,750
Couple, home-owners (combined)	\$178,500	\$379,500
Couple, non-home-owners (combined)	\$268,500	\$469,500

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

For family payments and Maternity Allowance, the current assets limit for the full payment is \$407,270, but the minimum rate is payable until assets exceed \$604,250.

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

### *Taxation treatment*

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

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

### *Tax and income test interactions*

The Australian income support system goes further than most other countries in income-testing payments. For example, in 1990–91 income-tested payments in Australia amounted to 5.2 per cent of GDP, or 90 per cent of total social security spending. The average for the OECD as a whole was 1.9 per cent of GDP and 14 per cent of social security spending (Eardley, Bradshaw, Ditch, Gough and Whiteford 1996). Only New Zealand was more reliant on income-testing (and this result is based on treating the income tax surcharge on National Superannuation as an income test). In the United Kingdom and the United States, income-tested spending was 3.0 and 2.7 per cent of GDP, and 31 and 33 per cent of social security spending, respectively. As a consequence, comparatively high proportions of the Australian population were exposed to income-testing, as shown in Table 2. The proportion of the total population in Australia receiving social assistance benefits in 1992 was nearly 2½ times the average of OECD countries, and was consistently high for all groups apart from lone parents.

Over the past 20 years, there has been a substantial increase in the degree of interaction between social security and other sources of income. This reflects a wide range of factors, including the increase in unemployment and lone parenthood, the introduction of income-tested family payments for people in the workforce, initiatives to increase private provision through improved collection of maintenance, and liberalisation of income tests. Overall, around 60 per cent of social security customers in December 1997 had private income in addition to their social security payments. This proportion ranges from around 10 per cent of special

beneficiaries and 30 per cent of Newstart allowees to 45 per cent of disability support pensioners, 60 percent of sole parent pensioners and 80 per cent of age pensioners.

These trends have been particularly significant for sole parents. In 1986, 47 per cent of all sole parents received 90 per cent or more of their income from cash transfers, but by 1996 this had fallen to under 36 per cent. Figure 1 shows trends in the proportion of sole parent pensioners receiving income from different sources. The proportion receiving income from maintenance increased from under 25 per cent to more than 40 per cent between 1983 and 1998, while the proportion with earnings went from 9 to 26 per cent. As a result, the proportion of pensioners receiving a part-rate payment increased from under 15 to more than 40 per cent by 1992. There was then a change in income-testing of maintenance,<sup>9</sup> but the new series since 1992 shows continuing increases in the proportion of pensioners receiving part payments.

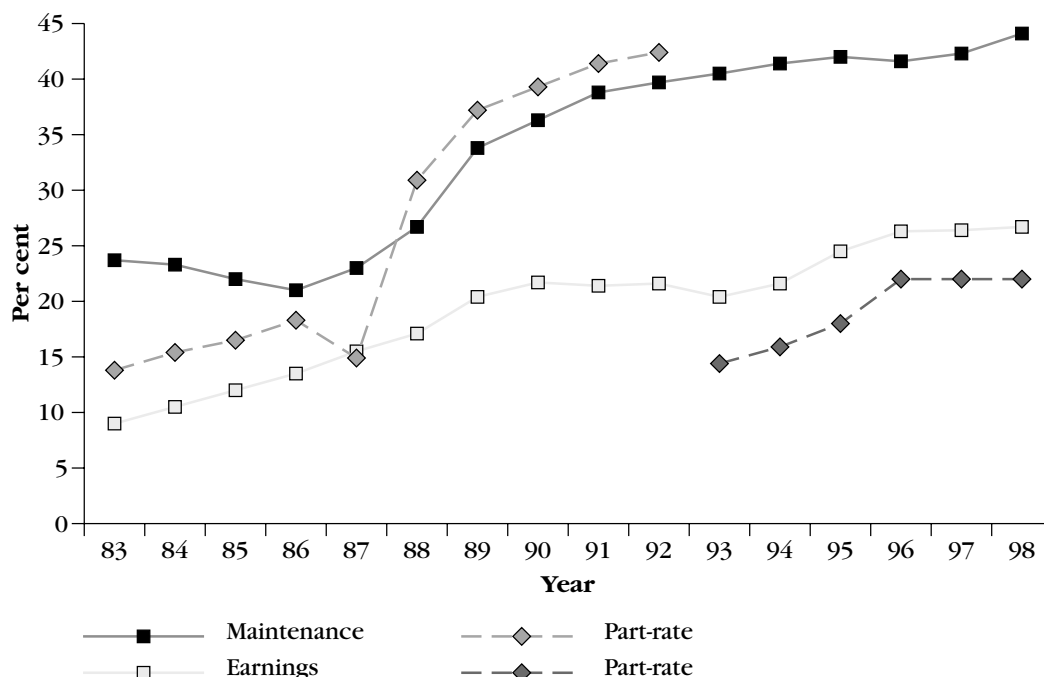
**Table 2:** Social assistance beneficiaries as a percentage of national population by category, OECD countries, 1992 (%)

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

**Note:** na: not available. Totals include other categories varying between countries.

**Source:** Eardley, Bradshaw, Ditch, Gough and Whiteford 1995, pp. 40,42.



**Figure 1: Sole parent pensioners, receipt of income, 1983 to 1998**

Source: DSS Annual Reports, various years and FaCS Annual Report 1998-99.

### *'Poverty traps', 'low-income traps' and effective marginal tax rates*

This increasing interaction is also important as more individuals may face high effective marginal tax rates (EMTRs) due to the overlap between income tests and the tax system, as well as income tests outside the social security system. Where these high EMTRs act as a barrier to social security recipients taking part-time work, they are known as 'poverty traps'. Where they act as a barrier to those in work increasing their earnings, they are known as a 'low-income trap'. Policy initiatives over the past 15 years have tended to reduce the problem of poverty traps, at the possible cost of extending low-income traps.

It is important to note that an income support recipient completely reliant on payments or with very low additional income would face a low effective marginal tax rate, since none of their payments are withdrawn under the free area, and most social security recipients will have low income tax liabilities. However, once they are over the free area and paying income taxes, their EMTRs will increase quite significantly. This pattern where EMTRs increase as income support recipients move from low to more substantial levels of private income is uncommon in other OECD countries, since most social assistance recipients elsewhere will initially face 100 per cent withdrawal rates, before their EMTRs drop as they exit income support.

There are a number of ways of describing these effects. Table 3 shows average effective tax rates (ETRs) over the range over which income support is withdrawn, and the range over which family payments (where relevant) are reduced. The table then shows the combined impact of the pension/allowance income test and the Family Allowance income tests, and then calculates ETRs from zero income to the cut-out points (that is, including the effects of the free areas).

**Table 3: Effective tax rates (ETR) on social security clients over income range where pension/allowance and family payments are withdrawn**

Family type	Pension ETR	AFP ETR	Combined ETR	ETR from zero
Sole parent, 1 child under 5, rent = \$145 pw	0.61	0.89	0.70	0.59
Sole parent, 1 child < 5, 1 child 5-12, rent = \$145 pw	0.62	0.88	0.72	0.61
Sole parent, 1 child < 5, 1 child 5-12, 1 child 13-15; rent = \$145 pw	0.64	0.90	0.76	0.65
Sole parent, 1 child < 5, 1 child 5-12, no rent	0.62	0.89	0.70	0.57
NSA/PgA couple, 1 child under 5, Rent = \$145 pw <sup>a</sup>	0.83	0.92	0.82	0.77
NSA/PgA couple, 1 child < 5, 1 child 5-12; rent = \$145 pw <sup>a</sup>	0.83	0.89	0.81	0.77
NSA/PgA couple, 1 child < 5, 1 child, 5-12, 1 child 13-15; rent = \$145 pw <sup>a</sup>	0.83	0.90	0.82	0.79
NSA/PgA couple, 1 child < 5, 1 child 5-12; rent = \$145 pw <sup>b</sup>	0.79	0.75	0.81	0.72
NSA/PgA couple, 1 child < 5, 1 child 5-12; rent = \$145 pw <sup>b</sup>	0.79	0.75	0.79	0.72
NSA/PgA couple, 1 child < 5, 1 child 5-12; rent = \$145 pw <sup>b</sup>	0.83	0.90	0.81	0.76
Single NSA, no children, rent = \$145 pw	0.82	-	-	0.75
Single NSA, no children, rent = \$0 pw	0.79	-	-	0.72
NSA/PgA couple, no children, rent = \$145 pw <sup>a</sup>	0.85	-	-	0.80
NSA/PgA couple, no children, rent = \$145 pw	0.81	-	-	0.72
Single age pensioner, no children, rent = \$145 pw	0.72	-	-	0.64
Single age pensioner, no children, rent = \$0 pw	0.67	-	-	0.59
Age pension couple, rent = \$145 pw <sup>a</sup>	0.75	-	-	0.66
Age pension couple, no children, rent = \$0 pw <sup>a</sup>	0.74	-	-	0.64

**Notes:** a 100% of private income to head

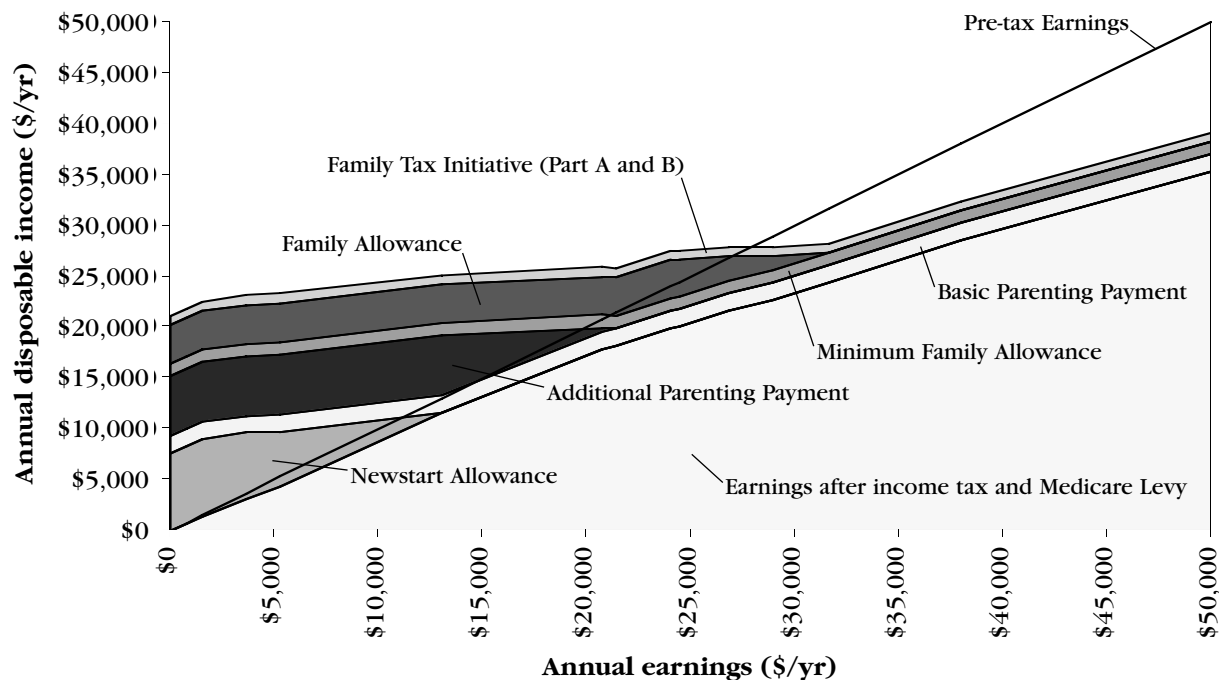
b 50% of private income to head

**Source:** Calculated by D. Ingles, Department of Family and Community Services.

Figure 2.1 further illustrates the effects of the income support and family payment systems on disposable incomes and their interaction with the income tax system. The figure shows the disposable income schedule for a single-income couple with two children (aged 4 and 7 years). Without any earnings, the family receives social security and family payments totalling just over \$21,000. Disposable income increases only slowly as earnings increase, because tax is paid but, more significantly, social security and family payments are withdrawn.

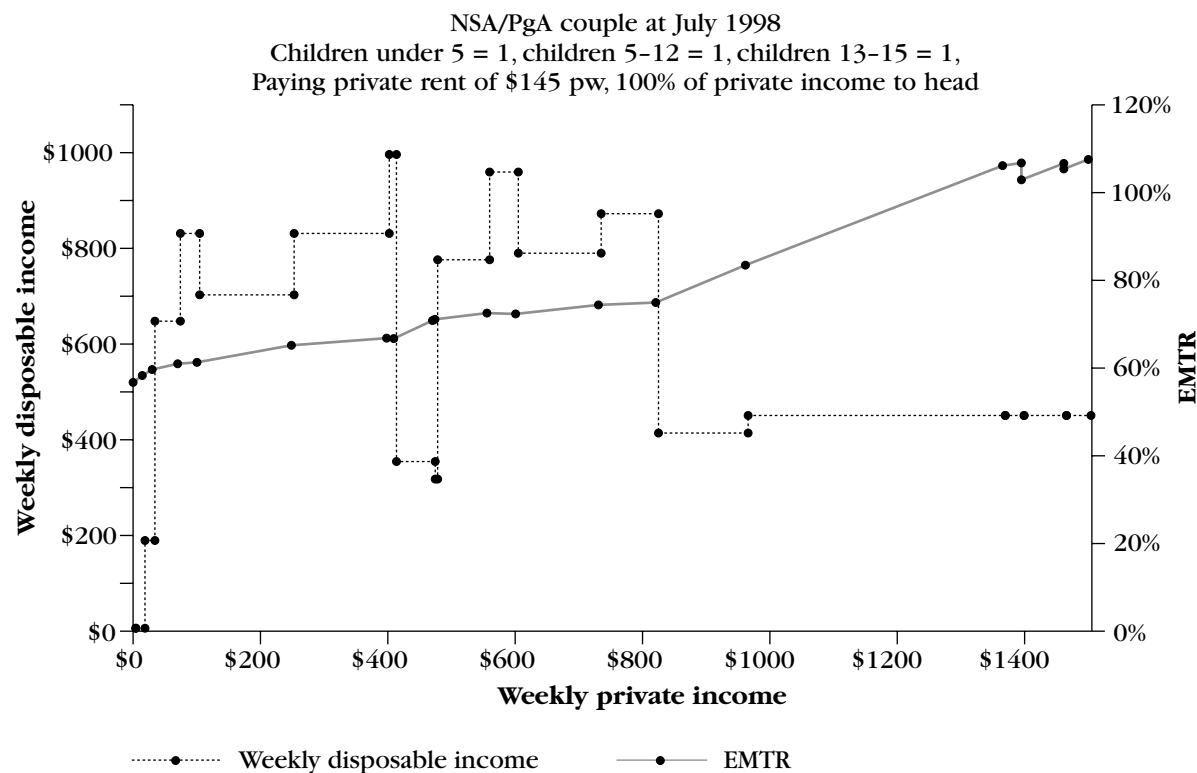
Figure 2.2 illustrates the EMTR schedule for a couple with three children and paying private rent.<sup>10</sup> Withdrawal rates on Newstart/Parenting Payment and income tax combine to produce EMTRs of at least 60 to 67 per cent. Effective marginal tax rates then drop over a narrow income range. For some low-income families, the effective marginal tax rates are then 85.5 per cent or more because they pay tax of 34 cents and the Medicare Levy of 1.5 cents and they lose family payments at a rate of 50 cents for each extra dollar of income that they earn. Withdrawal of income-tested tax rebates and the phasing in of the Medicare Levy produce some of the extreme spikes in the schedule.

**Figure 2.1:** Disposable income schedule for families (two children, 4 and 7 years), up to earnings of \$50,000 a year



Source: <http://www.taxreform.gov.au>

**Figure 2.2:** Effective Marginal Tax Rate Schedule, couple with 3 children, July 1998



Source: Ingles 1998.

The most notable point about these calculations is that the ETRs are high over very wide ranges of income. At specific points or narrower income ranges, they can be much higher and exceed 100 per cent.

Another way of illustrating this is to consider increments to disposable income from a \$100 a week increase in private income. Table 4 shows that a single allowee would face an effective marginal tax rate of 79 per cent on incomes between \$100 and \$200 a week and 66 per cent on incomes between \$200 and \$300 a week. Couples with children face effective marginal tax rates of 83 per cent between \$200 and \$300 a week, and 90 per cent between \$300 and \$400 per week—that is, for each additional dollar they earn over this income range they keep only 10 cents. For families with four children, the table shows that marginal tax rates can reach 93 or 94 per cent, and, where there are dependent students, marginal tax rates can be over 100 per cent—the change in disposable incomes is negative. The range of incomes over which these marginal rates apply is wider where rent assistance is received.

These marginal tax rates are a consequence of the high degree of targeting imposed in the Australian family payments system. There is now an extensive literature on this issue in Australia (for a more comprehensive analysis, see Ingles (1997, 1998)). In considering the implications of this targeting, it is important to consider how many individuals and families are actually affected by high EMTRs. Estimates by Beer (1998) suggest that around 6 per cent of the total Australian population are in income ranges where they directly face an EMTR of 60 per cent or more, but that 13 per cent of sole parents and 10 per cent of individuals in couples with children face these EMTRs. Moreover, 27 per cent of all individuals currently face an EMTR of zero—but this means that they are below the income ranges where tax and social security interact, and they could be potentially exposed to high EMTRs if they increased their private income.

This targeting has probably also contributed to the popular view that low-income working families are no or little better off than families completely reliant on social security payments. While strictly speaking this is not correct, it can be seen from Table 4 that a couple with two teenage children will increase their disposable income by only around \$315 per week for a \$1000 a week private income. For a couple with four older dependent children, the change in disposable income is \$152 out of \$1000 of gross income.

While the problems of the ‘poverty trap’ and the ‘low-income trap’ are well known in the international social policy literature, there is evidence that the ‘low-income trap’ is potentially more salient in Australia than in many other countries. Table 5 provides a range of data comparing the impact of direct taxes and family payments on families with two children in 18 OECD countries at 1992. These data are from a study of assistance for families with children by Bradshaw, Ditch, Holmes and Whiteford (1993). This study is based on 1992 income and tax levels and includes all the countries of the then European Union plus Australia, Japan, New Zealand, Norway, Sweden and the United States.

**Table 4:** Returns to disposable income from successive \$100 pw increments in private income, single-earner income units, August 1998

Income unit type	CHANGE IN DISP. INCOME OVER INCOME RANGE (\$PW)										Income @ \$1000	Income @ \$0	gain \$pw	gain %	EATR
	0-100	1-200	2-300	3-400	4-500	5-600	6-700	7-800	8-900	9-1000					
<b>No Rent Assistance</b>															
Single allowee, no children	42	21	36	78	62	65	65	58	56	54	696	161	535	0.53	0.47
Allowee couple, no children	42	24	17	26	25	65	65	58	56	54	721	290	431	0.43	0.57
Couple, one child aged 16	46	24	17	10	36	40	40	48	56	54	732	363	369	0.37	0.63
Couple, two children aged 13, 16	42	24	17	10	30	0	40	42	56	54	747	433	314	0.31	0.69
Couple, three children aged 4, 11, 15	42	24	17	10	43	7	14	47	56	54	784	471	314	0.31	0.69
Couple, three children aged 9, 16, 20	42	24	17	10	37	12	15	8	23	54	747	506	241	0.24	0.76
Couple, four children aged 8, 12, 14, 16	42	24	17	10	49	8	-19	16	40	54	778	537	241	0.24	0.76
Couple, four children aged 12, 16, 18, 20	42	24	17	10	37	40	1	-17	-20	20	747	594	154	0.15	0.85
<b>Receiving Rent Assistance</b>															
Single allowee, no children	42	21	15	61	62	65	65	58	56	54	696	198	498	0.50	0.50
Allowee couple, no children	45	20	17	26	-6	60	65	58	56	54	721	325	396	0.40	0.60
Couple, one child aged 16	42	24	17	10	1	40	40	48	56	54	732	402	330	0.33	0.67
Couple, two children aged 13, 16	42	24	17	10	30	-18	14	42	56	54	747	477	270	0.27	0.73
Couple, three children aged 4, 11, 15	42	24	17	10	43	7	14	8	45	54	784	520	264	0.26	0.74
Couple, three children aged 9, 16, 20	42	24	17	10	37	-21	3	8	23	54	747	550	197	0.20	0.80
Couple, four children aged 8, 12, 14, 16	42	24	17	10	49	8	-19	-17	24	54	778	587	192	0.19	0.81
Couple, four children aged 12, 16, 18, 20	42	24	17	10	37	7	-10	-17	-20	20	747	637	110	0.11	0.89

**Note:** EATR = Effective Average Tax Rate.

**Source:** Calculated by J. Pech, Department of Family and Community Services.

**Table 5:** Comparison of direct taxes and benefits for couples with two children, selected OECD countries, 1992

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	ATR at 0.5 APW (%)	ATR at APW (%)	ATR a 1.5 APW (%)	Dispersion of after-tax incomes	Reduction in dispersion (%)	Benefits at 0.5 APW*	Benefits at 1.5 APW*	Range: 0.5 APW/ 1.5 APW	Disposable income**	Dispersion of after-tax incomes***	Reduction in dispersion (%)	Average EMTR %	PI and EeSS % of GDP	Total all other taxes % of GDP
Australia	4	19	28	2.25	25	1.47	0.58	3.9	62	1.82	39	55	11.8	16.9
Belgium	13	25	33	2.33	22	1.18	1.81	1	54	1.96	35	51	18.8	26.4
Denmark	27	39	48	2.13	29	0.59	0.91	1	42	1.99	34	50	37.6	11.6
France	19	19	21	2.93	2	0.58	0.89	1	47	2.31	23	43	11.9	31.8
Germany	18	27	31	2.52	16	1.58	0.56	4.3	55	1.94	35	52	17.5	21.5
Greece	16	16	18	2.93	2	0.39	1.39	0.4	49	2.72	9	37	9.2	30.4
Ireland	8	24	27	2.38	21	0.76	0.41	2.9	54	2.08	31	48	13.2	23.2
Italy	15	26	31	2.43	19	0.75	0	!	50	2.08	31	48	13.9	28.2
Japan	12	14	16	2.86	5	0.72	1.11	1	51	2.62	13	38	11.0	18.1
Luxembourg	12	12	14	2.93	2	0.98	1.51	1	53	2.62	13	38	13.8	28.0
Netherlands	30	41	45	2.36	21	1.71	3.59	0.7	51	1.93	36	52	23.0	23.8
New Zealand	20	25	27	2.74	9	0.98	0	!	50	2.19	27	46	16.6	20.4
Norway	15	25	31	2.44	19	1.05	1.61	1	55	2.16	28	46	13.9	27.1
Portugal	11	17	21	2.66	11	0.21	0.32	1	49	2.52	16	40	10.0	23.4
Spain	5	13	17	2.62	13	0.29	0	!	51	2.51	16	40	10.4	25.5
Sweden	23	26	32	2.65	12	0.85	1.31	1	56	2.31	23	43	18.1	32.9
United Kingdom	12	23	26	2.52	16	1.49	1.01	2.3	58	2.01	33	50	12.3	22.8
United States	8	15	17	2.71	10	2.49	0	!	66	1.88	37	53	12.6	14.1

**Notes:** Columns 1 to 3 show average direct tax rates (income tax plus employee social security contributions less relevant rebates and deductions) at multiples of the average production worker's wage (APW). Columns 4 and 5 show the effects of the direct tax structure, given that in all cases the dispersion of gross incomes is 3 to 1. In Columns 6 and 7 cash benefits for families with children are expressed as proportions of the average absolute level of benefits for this type of family in all countries. Column 8 shows the ratio within each country of cash benefits for low income groups to cash benefits for high income families. Column 9 is the disposable income (after direct taxes and cash benefits) of a family with two children at half average earnings expressed as a percentage of average gross earnings. Columns 10 and 11 are the same as for 4 and 5, but include the effects of cash benefits, treated as negative taxes. Column 12 is the overall average effective marginal tax rate between these two levels of gross income. Column 13 is personal income tax and employee social security contributions as a percentage of GDP. Column 14 is all remaining taxes as a percentage of GDP.

**Source:** Calculated from Bradshaw, Ditch, Holmes and Whiteford, 1993.

The calculations are based on the work of researchers within each country who calculated the statutory tax liabilities of individuals and model families at half average, average and 1.5 times average male earnings. Calculations were made of income tax liabilities, employee and employer social security contributions and all relevant rebates, deductions and allowances.

It should be emphasised that these results describe the **structure** of taxation and assistance in each country—the inputs to family assistance and not their outcomes. Families are assumed to pay tax in line with their statutory liabilities and receive benefits in line with their entitlements. Problems of tax avoidance or evasion, or limited take-up of benefits, are ignored

Columns 1 to 3 of Table 5 show average direct tax rates (income tax plus employee social security contributions less relevant rebates and deductions) at multiples of the average production worker's wage (APW). The rate at which these taxes increase is one measure of the progressivity of the tax scale. Columns 4 and 5 show the effects of the progressivity of the direct tax structure, given that in all cases the dispersion of gross incomes is 3 to 1. For example, the figures for Australia mean that the income of a family with a gross wage of 1.5 times the average, after direct taxes only, would be 2.25 times the corresponding figure for a very low-income family. This means that the dispersion of incomes in Australia in this case would be reduced by 25 per cent. This was the second largest effect of this sort after Denmark. In contrast, in France, Greece, Japan and Luxembourg the reduction in dispersion achieved by the direct tax system is negligible.<sup>11</sup>

In Columns 6 and 7, cash benefits for families with children are expressed as proportions of the average absolute level of benefits for this type of family in all countries. Column 8 shows the ratio within each country of cash benefits for low-income groups to cash benefits for high-income families. Column 9 is the disposable income (after direct taxes and cash benefits) of a family with two children at half average earnings expressed as a percentage of average gross earnings. Columns 10 and 11 are the same as for 4 and 5, but include the effects of cash benefits, treated as negative taxes. What these columns show is that family cash benefits are also important in reducing dispersion. The table shows that the percentage reduction in dispersion is greater in Australia than in any other of these countries, although closely followed by the United States. (This in turn reflects the highly progressive nature of the Earned Income Tax Credit, and the absence of cash payments for higher income families in the USA.<sup>12</sup> At the other extreme, dispersion is reduced only to a very limited extent in Greece, and slightly more in Japan, Luxembourg, Portugal and Spain.

All this implies is that the structure of the direct tax and family transfer system in Australia is more progressive than in any other of these countries—assuming that there is no tax avoidance and evasion, and complete take-up of benefits. The logical consequence of this progressivity, as shown in Column 12, is that the average effective tax rate over this wide income range is higher in Australia than in any other of these countries. Again, the United States comes second in this ranking, although it is notable that for the great majority of the countries included the average EMTR is between 40 and 50 per cent.

It is clear that it is necessary to be cautious in interpretation of this table. Columns 13 and 14 show the level of direct taxes included in each country, compared to the level of all other taxes. Thus, in Australia and the United States all other taxes that have not been taken into account in these calculations amount to around 14 to 17 per cent of GDP. At the other extreme, other taxes take more than 30 per cent of GDP in France, Greece and Sweden. These other taxes (employer social security contributions and broad-based consumption taxes, most notably) are actually likely to be less progressive than direct taxes. But they will finance higher levels of social provision that may also impact on the overall progressivity of the tax-transfer system. Nevertheless, it is fair to conclude that the structure of the direct tax and family benefit system in Australia is more progressive than in any other of these countries. The income range covered by these comparisons encompasses 80 per cent or more of working households in these countries. In summary, the table reinforces the picture of Australia as a country committed to targeting.



## 3 Spending on social protection: trends and comparisons

### 3.1 Growth in income support spending

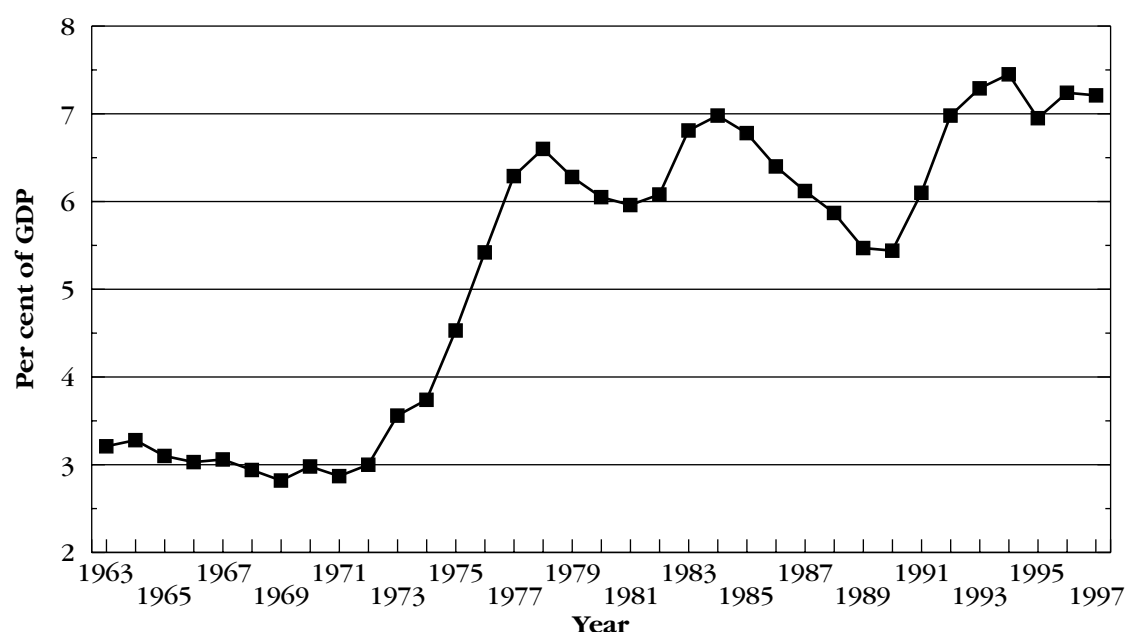
Over the past 30 years, there has been a significant long-term increase in the level of income support spending in Australia, and an associated increase in the number of individuals and families receiving social security payments.

Figure 3 shows that spending on cash transfers by the (then) Department of Social Security rose from around 3 per cent of Gross Domestic Product (GDP) during the 1960s to 5.4 per cent in 1976, 6.8 per cent in 1983, and 7.2 per cent in 1997. However, social security spending has fallen as well as risen. For example, spending fell between 1978 and 1981, again from 1984 to 1990, and in 1995, and to a small extent in 1997.

Figure 4 shows the changing composition of social security spending over the last 30 years. Spending on age pensions has remained the largest single program over this period, increasing from 1.65 per cent of GDP in 1965 to nearly 3 per cent in 1980, before falling to around 2.5 per cent in 1997. Age Pension spending has fallen from 55 per cent of total departmental spending on cash benefits in 1970 to 34 per cent in 1997.

Unemployment spending has been the largest single contributor to the total increase in spending, growing from 0.03 per cent of GDP in 1965 to 1.13 per cent in 1997. Other significant components of the increase in social security spending include disability payments, which increased from 0.3 to just under 1 per cent of GDP; payments for widows and sole parents, which grew from 0.2 to 0.6 per cent of GDP; and payments for families.

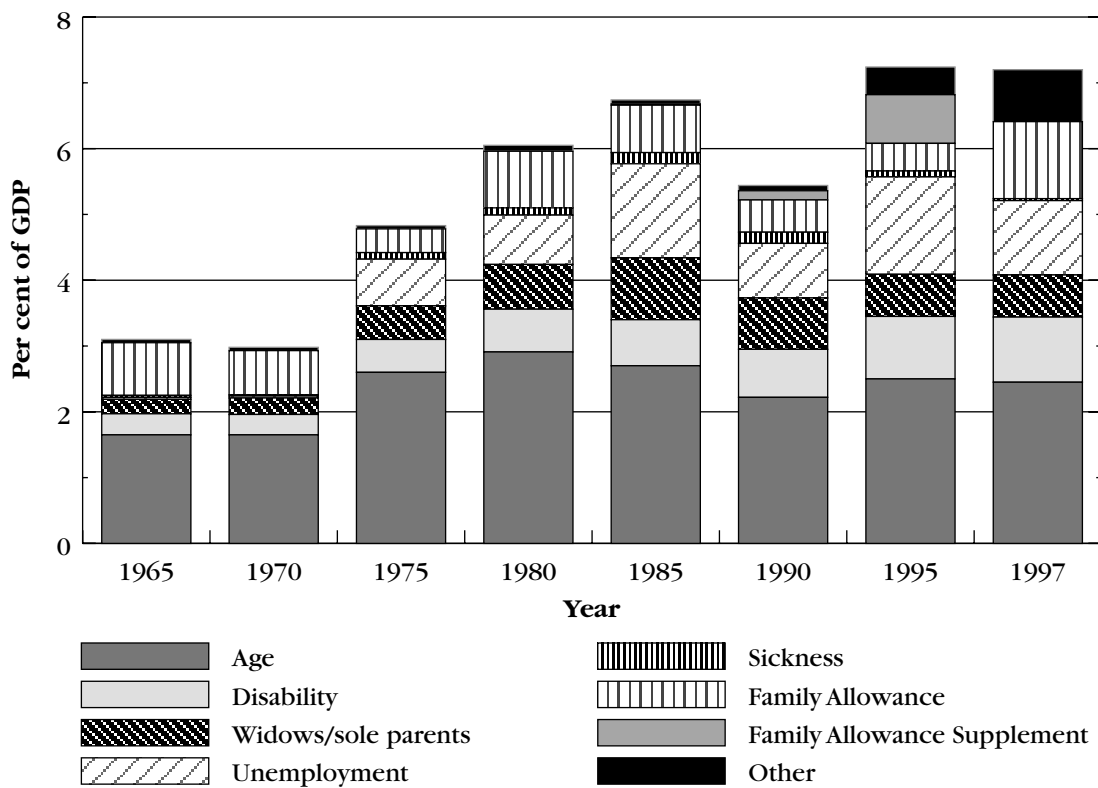
**Figure 3:** Spending by the Department of Social Security, % of GDP, 1963 to 1997



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

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

**Figure 4:** Composition of social security spending, % of GDP, 1965 to 1997



	1965	1970	1975	1980	1985	1990	1995	1997
Age	1.65	1.65	2.60	2.91	2.70	2.22	2.50	2.45
Disability	0.32	0.31	0.50	0.65	0.70	0.73	0.95	0.99
Widows/ sole parents	0.22	0.25	0.51	0.68	0.94	0.78	0.64	0.64
Unemployment	0.03	0.03	0.71	0.75	1.43	0.83	1.48	1.13
Sickness	0.03	0.02	0.10	0.11	0.17	0.17	0.09	0.03
FA	0.80	0.67	0.36	0.86	0.72	0.49	0.42	1.17
FAS					0.02	0.14	0.74	
Other	0.05	0.05	0.05	0.09	0.06	0.08	0.42	0.79

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

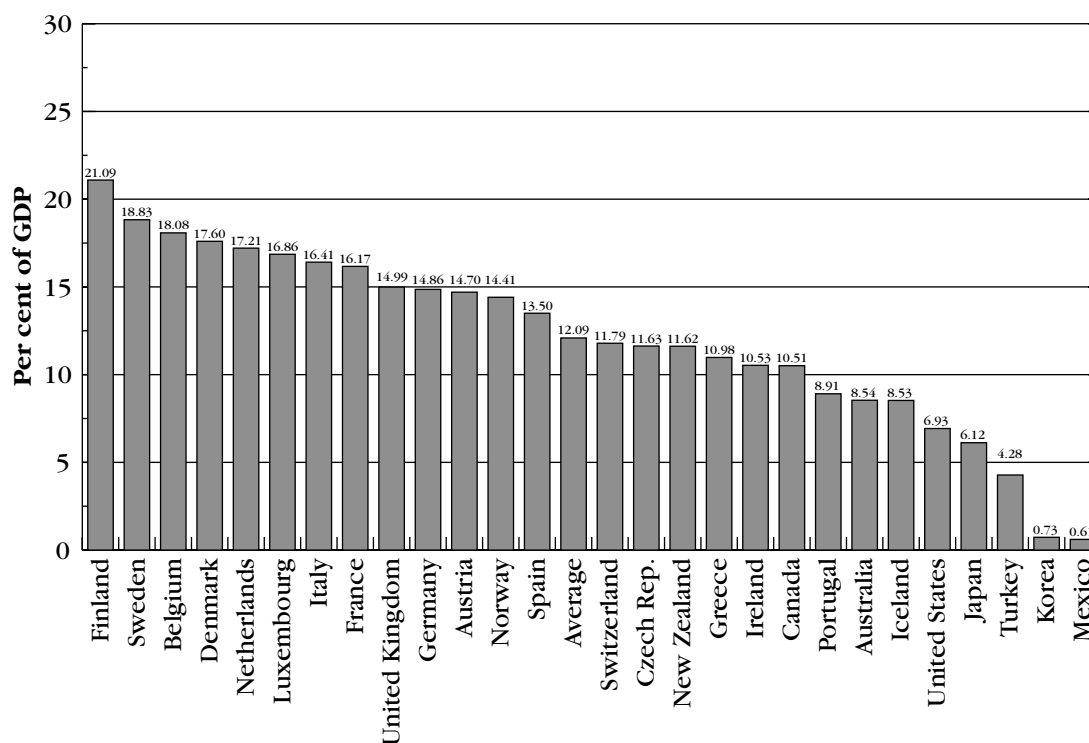
Policy changes have had very different influences in different periods. Increases in real benefit rates were particularly significant in the period 1970 to 1975, across all major payment types. Reductions in real benefit rates for the unemployed were made in the period 1975 to 1980 and for sickness benefits in the period 1980 to 1990. In other periods, changes in real benefit rates have played a less substantial role, although generally tending to cause increased social security spending.

### 3.2 The Australian model of social protection

The most recent available data from the OECD (Figure 5) indicate that spending on social security was 8.54 per cent of GDP in Australia in 1995. This is about 71 per cent of the OECD average, and exceeded the levels of social security spending only in Iceland, the United States, Japan, Turkey, Korea and Mexico.

There are a number of reasons why Australia has a relatively low level of social security spending. Figure 6 provides a breakdown by category of the components of social protection spending in Australia relative to the OECD average.<sup>13</sup> Public health spending is just above the OECD average, while spending on community services is around 69 per cent of the mean. Social security spending is 71 per cent of the OECD mean. Within income support, spending on families is well above the OECD average, reflecting the fact that most of Australia's family assistance is provided in the form of cash payments rather than tax concessions, and that assistance for sole parents is included under family assistance. Assistance to the unemployed is

Figure 5: Social security expenditure, OECD, 1995



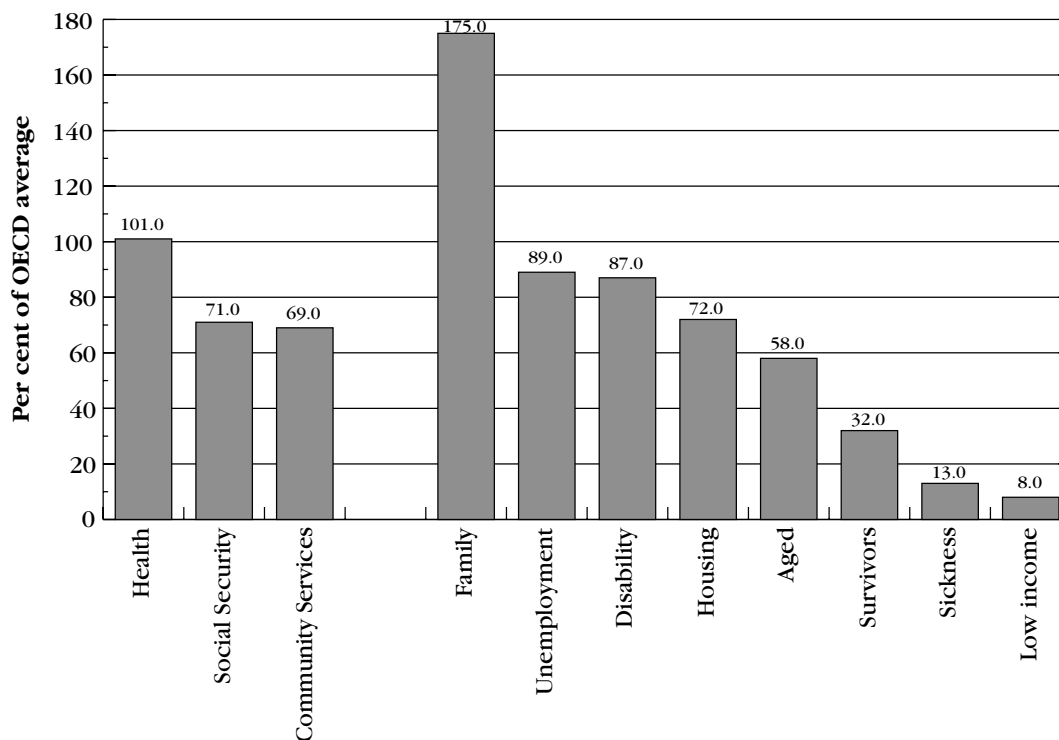
Source: Calculated from OECD *Social Expenditure Database* 1998.

close to the OECD average (89 per cent) and standardising for unemployment to population ratios makes Australia’s spending on the unemployed almost exactly the OECD average. Spending on disability payments is 87 per cent of the average. Other components of social security spending, however, are well below the OECD average.

As can be seen, income support for the sick in Australia is apparently very low. This is because it is predominantly supplied by employers through industrial awards that fall outside the definition of public spending, while in many other countries such coverage is provided through the social security system. However, it is spending on age pensions that is the main contributor to Australia’s overall low spending on income support. Australia spends just over half the OECD average on the aged. Because this is the largest single component of income support in Australia and most other OECD countries, it exerts a powerful downward pressure on overall spending. In part this reflects Australia’s age structure, which is currently younger than the OECD average. Standardising for age structure would increase Australian spending on the aged from 58 to around 70 per cent of the OECD mean.

Recent analyses by the OECD suggest a further explanation for low transfer spending in Australia. This relates to the large differences in the level of taxes paid on transfers in different countries.<sup>14</sup> Adema, Einerhand, Eklind, Lotz and Pearson (1996) estimate that in Denmark, of the 30 per cent of GDP spent on social protection, around 4 per cent is ‘paid back’ in direct taxes and contributions, and another 4 per cent in indirect taxes. In the United States, in contrast, direct taxes and contributions reduce the 15 per cent of GDP spent on social protection by

**Figure 6:** Components of social protection spending, Australia and the OECD, 1995



Source: Calculated from OECD *Social Expenditure Database* 1998.

only 0.08 per cent of GDP, and indirect taxes by 0.47 per cent of GDP. Thus, the difference in gross social protection expenditure between the two countries is around 15 per cent of GDP, but the difference between net expenditures is around 7 per cent. Earlier discussion suggests that Australia is very likely to be in the same position as the United States, since income support recipients in Australia pay no income tax on their basic entitlements, and the level of indirect taxes is also low.

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

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

$$\text{Cost} = \frac{\text{Number of recipients}}{\text{Number of contributors}} \times \frac{\text{Average benefit received}}{\text{Average income of contributors}}$$

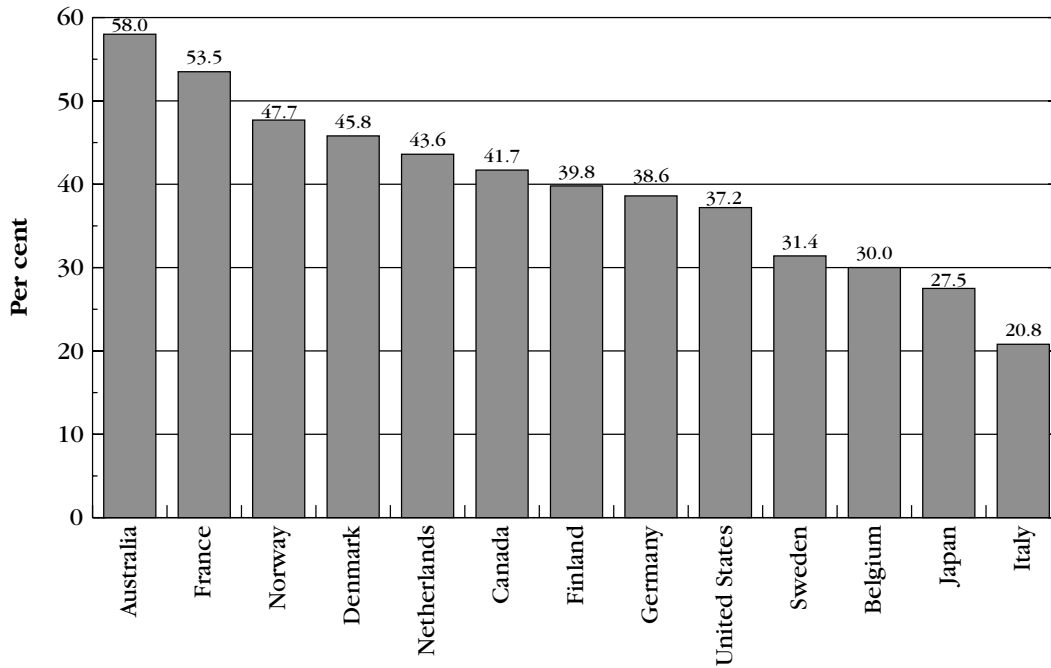
In considering this formula, it is clear that the cost of a general revenue financed, flat-rate and means-tested system may differ significantly from a social insurance system with earnings-related benefits. General revenue financing will maximise the number of effective contributors to encompass the entire population. While the universal coverage of the Australian income support system will tend to increase the number of recipients, means-testing will work in the opposite direction (for example, only around 80 per cent of older Australians receive some government income support in retirement). Means-testing also reduces the average benefit received, but Khan’s (1998) calculations suggest that it is the flat-rate nature of Australian benefits that most significantly reduces the average benefit level paid relative to other countries.<sup>15</sup>

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

Figures 7, 8 and 9 illustrate similar findings from a more recent OECD study using household income and expenditure surveys for the 1990s. Figure 7 shows that in Australia the share of transfers received by the poorest three deciles is 58 per cent, only slightly higher than in France, but still well above the average and much greater than in Japan or Italy. The most striking difference is between the share of transfers to the richest 30 per cent, shown in

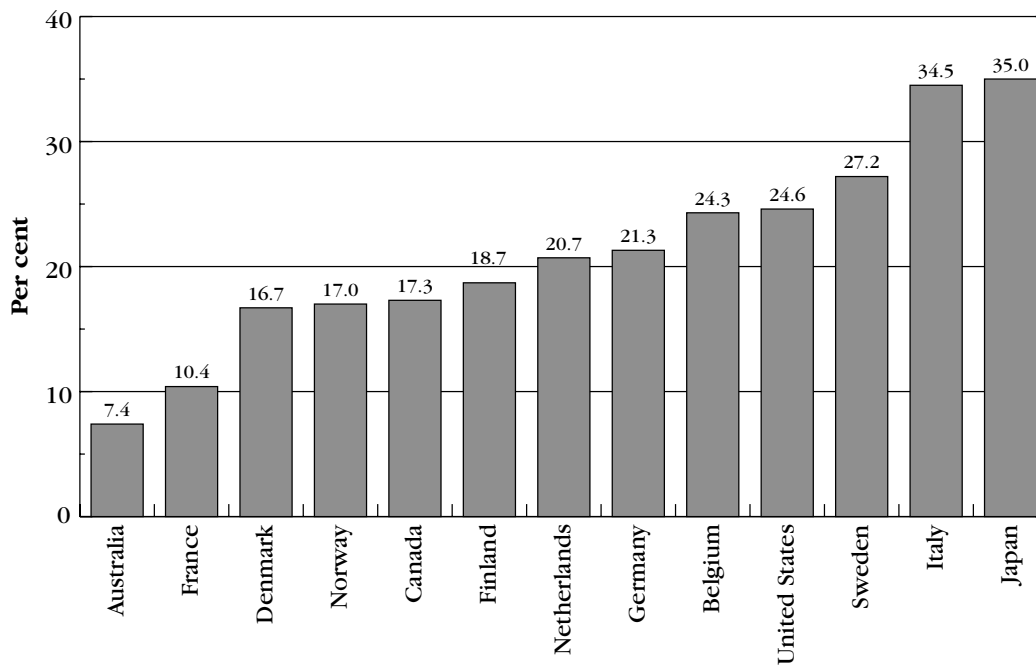
Figure 8. In Japan (which has somewhat lower levels of total transfer spending than Australia), the richest 30 per cent of households receive nearly 35 per cent of total spending, while in Australia the corresponding groups receive only 7.4 per cent.

Figure 7: Share of transfers, poorest three deciles, OECD countries, around 1995



Source: OECD 1998.

Figure 8: Share of transfers, richest three deciles, OECD countries, around 1995



Source: OECD 1998.

Figure 9 shows the ratio of the share of transfers received by the poorest 30 per cent to the share of the top 30 per cent, which provides an index of the progressivity of the transfer structure. In fact, it is the very low share of the top 30 per cent that is the most significant contributor to the overall progressivity of the Australian system. Put another way, Australia has less ‘middle class welfare’ than virtually all other developed countries, including other low-spending countries such as the United States and Japan.

Figure 10 shows that the increase in the extent of targeting in Australia has been greater than in any of the other countries shown. The share of social security transfers received by the richest 30 per cent of the population was nearly halved in Australia between 1975 and 1995.

It is important to note that the progressivity of the transfer structure does not necessarily mean that the Australian system is more effective at redistribution. The degree of redistribution achieved by a benefits system depends on the ‘quantum’ of benefits as well as the progressivity of the formula for allocating benefits (Barr 1990). A means-tested program with a highly redistributive formula—such as Australia’s—may achieve limited redistribution if spending is low. That is, while the Australian system may be more efficient than others, it does not necessarily follow that it is more effective at reducing poverty or inequality.<sup>16</sup>

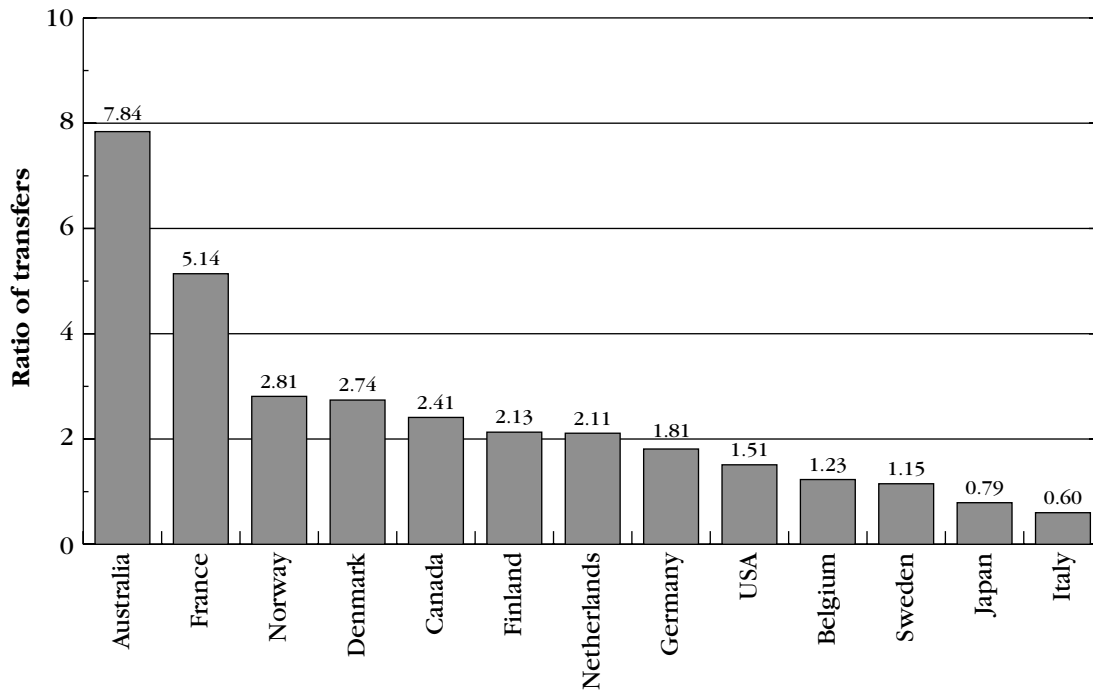
Having noted this, it is important not to confuse the amount of redistribution with the size of welfare state spending. Logically, it is the quantum of redistribution, not the quantum of taxes or benefits separately, that determines the redistributive effects of a tax-benefit system.

Redistribution is a function of the distribution of the differences between taxes and benefits as a proportion of income.

Table 6 shows the effects of targeting on the net redistributive impact of income transfer spending in OECD countries. The table should be considered as illustrative rather than definitive, since it applies the data on shares received by the poorest 30 per cent in the OECD study (1998) to the gross transfer spending figures published by the OECD (1996). That is, the share data come from household surveys and the gross expenditures from statistical agencies.<sup>17</sup> The second half of the table uses estimates of ‘churning’ also prepared by the OECD (1998). Churning is defined as the level of direct taxes paid by the lowest 30 per cent of households, and is estimated from the same household surveys as the distribution of transfers. The table then calculates the net transfers paid to the lowest 30 per cent of households as a percentage of GDP. This is estimated by taking gross transfers as a percentage of GDP and applying the share fraction to calculate gross transfers to the poorest 30 per cent. Direct taxes paid by the poorest 30 per cent are then calculated in the same way, and subtracted to give estimates of the net transfers paid.

While the total level of transfers in Australia is the third lowest among these countries, the level of net transfers to the poorest 30 per cent is the third highest, being exceeded only by Norway and Finland and being somewhat greater than in Sweden. It is also likely that inclusion of the effects of indirect taxes would further increase Australia’s relative ranking in terms of targeting the poor. As was shown in Table 5, indirect taxes are much higher in most European countries,

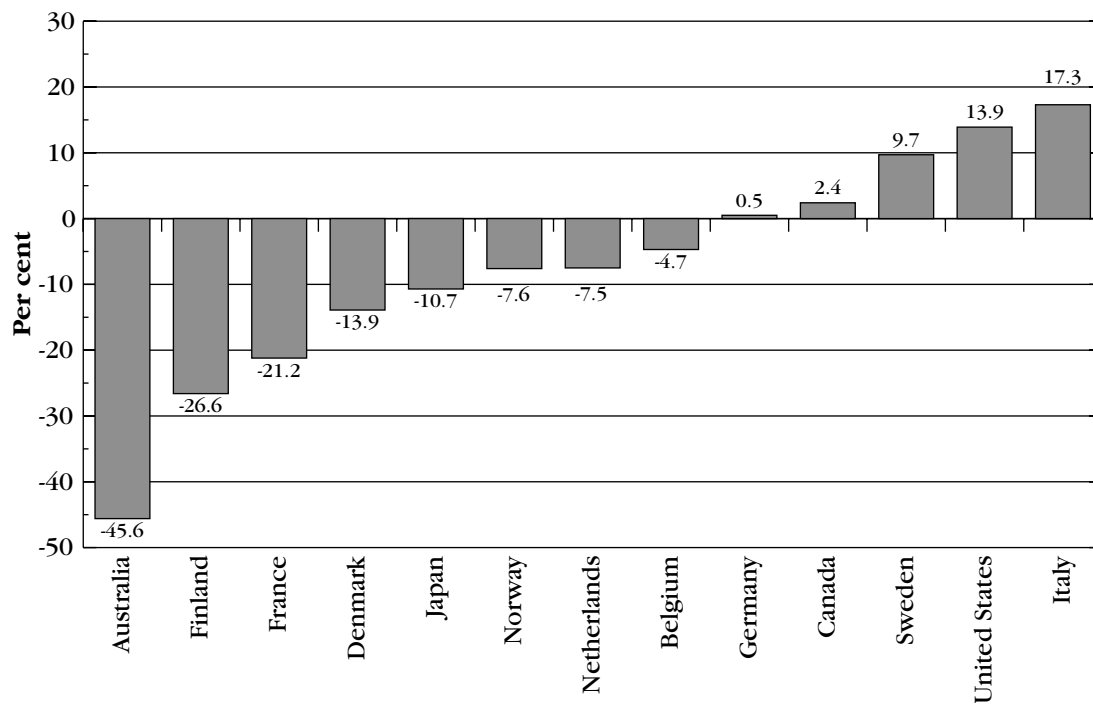
**Figure 9: Ratio of transfers, OECD countries, around 1995**



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

**Source:** OECD 1998.

**Figure 10: Change in share of transfers, richest three deciles, OECD countries, 1975 to 1995**



**Source:** OECD 1998.



**Table 6: Effects of targeting and churning on transfers, OECD countries, 1992–93**

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

Source: Calculated from OECD, 1996, 1998.

and it could be expected that they would impact more on lower income groups. On the other hand, non-cash benefits are also not included in this picture and they are likely to work in the opposite direction.

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

### **3.3 The Australian tax system in perspective**

Partly as a consequence of the unusual nature of its system of income support, the Australian tax system also differs significantly from those of other OECD countries. Total tax revenue in 1995 was 30.9 per cent of GDP compared to an OECD average of 37.4 per cent, only exceeding the levels in Turkey, the United States, Japan, Korea and Mexico (OECD 1996).

Taxes on income and profits accounted for 55.3 per cent of total revenue compared to an OECD average of 35.3 per cent. However, there are no social security contributions in Australia (apart from the Medicare Levy), while such contributions account for about 25 per cent of total revenue and 10 per cent of GDP for the OECD as a whole. Taxes on corporate income are well above the OECD average (4.6 per cent of GDP in Australia compared to an average of 3.0 per cent overall). Because of the lower overall level of tax in Australia, corporate taxes are nearly twice as high as the OECD average as a proportion of tax revenue. Taxes on property are also relatively high in Australia, at 2.7 per cent of GDP compared to 1.9 per cent on average.

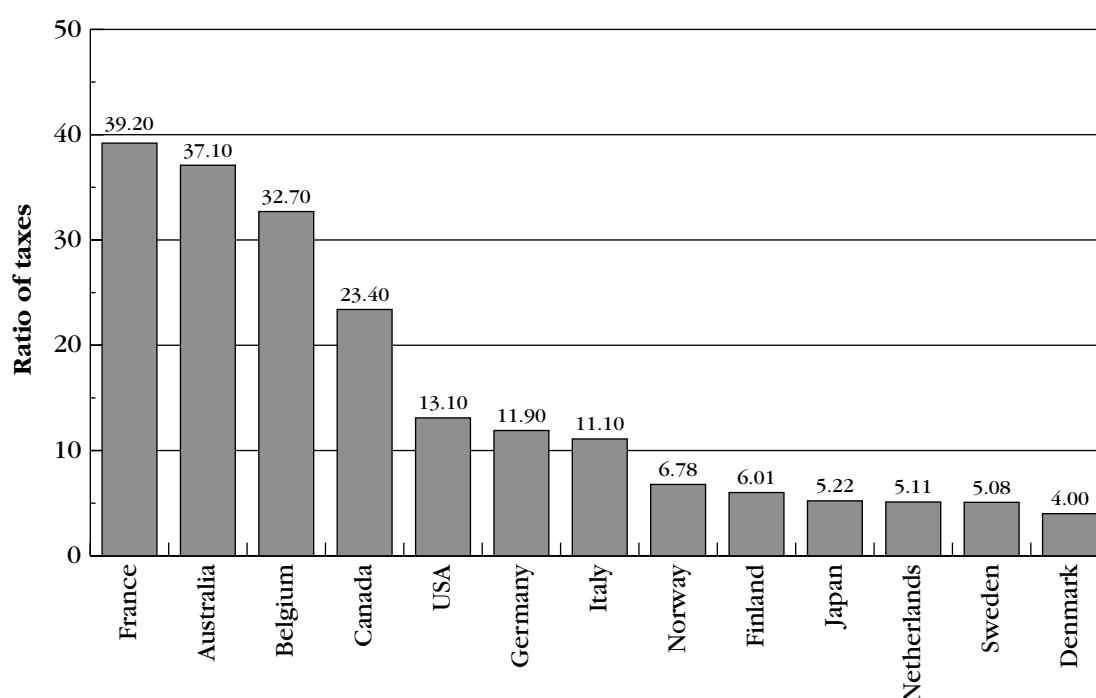
Another distinctive feature of the Australian tax system is that there is no broad-based consumption tax such as a value-added tax (VAT), and taxes on general consumption account for only 2.7 per cent of GDP compared to an OECD average of 6.6 per cent. Taxes on specific goods and services are, however, around the OECD average (4.5 per cent of GDP). While the empirical evidence available is insufficient for confident generalisations, the OECD has concluded that it is plausible that consumption taxes are broadly proportional to expenditure but regressive when measured against income (OECD 1993, p.83).

Australia is one of a number of countries that does not index the tax scale to inflation. In periods of inflation, this means that the income levels at which higher marginal rates cut in fall, thus increasing the effective progressivity of the scale. This has happened in Australia—if the point at which the top marginal rate cuts in had been indexed since 1983, then the highest tax bracket would be at incomes over \$70,000. Thus, while the top marginal rate has fallen, for many people with incomes between around \$40,000 and \$70,000 average taxes have actually increased.

The top marginal tax rate (47 per cent) in Australia is below the top rate in 12 other OECD countries, although in five of these the top rate is around 50 per cent. However, marginal rates over 45 per cent cut in in Australia at income levels below those in any other OECD country apart from Turkey and Ireland. The relatively low level at which the top rate applies in Australia is largely the result of the decision not to index the tax scales to inflation over the 1980s. This has increased the effective progressivity of the tax scale.

The same OECD study referred to in the previous section provides estimates that the richest 30 per cent of Australian households pay the second highest share of direct taxes of the countries included (OECD 1998). The poorest 30 per cent of households in Australia are estimated to pay 1.9 per cent of direct taxes compared to 5 per cent in the United States, 11 per cent in Japan, Sweden and the Netherlands and around 12 per cent in Denmark. From these data, it is possible to calculate an index of the progressivity of direct taxes analogous to that for transfers, but in this case being the ratio of the share of taxes of the top 30 per cent to the share of the poorest 30 per cent. This is shown in Figure 11.

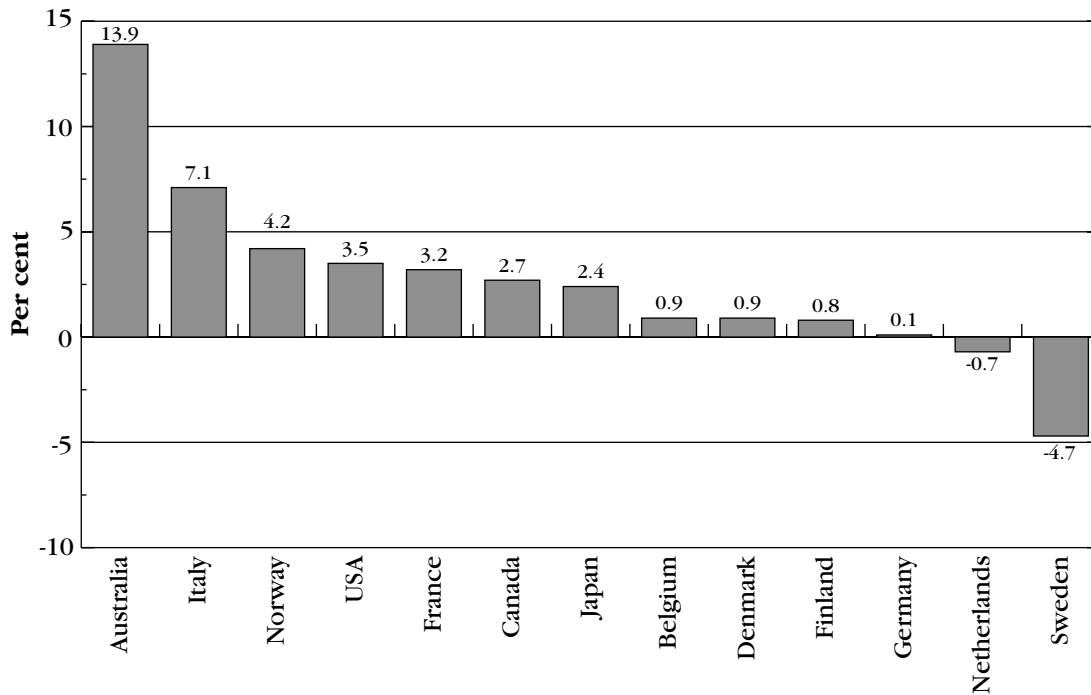
**Figure 11:** Ratio of direct taxes, OECD countries, 1995



Source: OECD 1998.

Figure 12 shows that the richest 30 per cent of households in Australia have experienced the largest increase in their share of taxes over the past 20 years of any of these countries. As discussed above, they have also experienced one of the largest cuts in transfers, due to tighter targeting.

**Figure 12:** Change in share of taxes, richest three deciles, OECD countries, 1975 to 1995



Source: OECD 1998.

While the Australian tax system appears to be highly progressive, such measures are based on the assumption that individuals pay tax in line with their liabilities, and thus ignore problems of tax avoidance and evasion. It is possible that the high level of nominal progressivity in the Australian tax system is associated with a low level of compliance. It can be noted, for example, that Australia has had a larger self-employment sector than most European economies over the period since World War II.

In this context, it should be noted that the Government has proposed wide-ranging reforms to taxation and social security programs. This involves the replacement of the existing wholesale sales tax with a broad-based goods and services tax, extensive changes to income taxes and family assistance, a compensation package for the effects of the tax changes, and a wide range of other reforms (for example, to funding for the States). Details of these proposals are contained in the Appendix.

## 4 Patterns of pension and benefit receipt

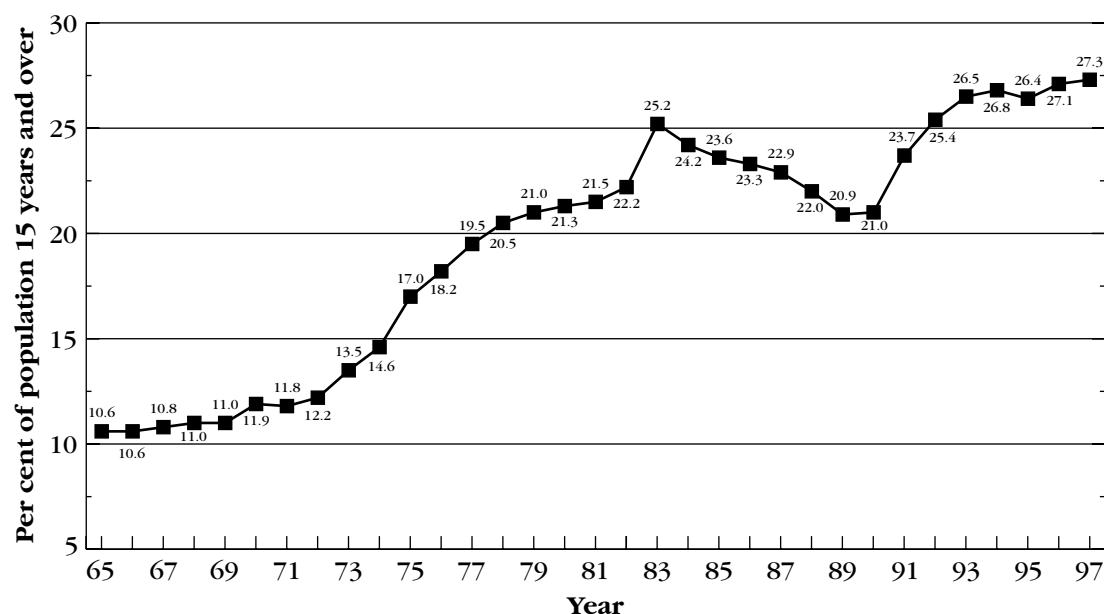
### 4.1 Current patterns and trends

Table 7 provides details of trends in the number of recipients of various cash payments from the former Department of Social Security (DSS) and the Department of Veterans' Affairs (DVA) for selected years from 1965 to 1998. Over this period, the total number of income support recipients has increased from around 900,000 to nearly 4.4 million. Of these, just over 2 million in 1998 were age pensioners or received DVA payments.

Figure 13 shows trends in social security recipients as a percentage of the total population aged 15 years and over. Between 1965 and 1997, the proportion of the adult population who were social security recipients increased from under 11 to 27 per cent.

Trends in receipt of payments are the consequence of differing levels and trends for different age groups. The aged<sup>18</sup> as a proportion of the total population has been growing steadily since the 1970s, from 10 per cent in 1971 to 14 per cent in 1997. Figure 14 shows social security income recipients as a proportion of the pension age population from 1965 to 1997. For the aged, (former) DSS income support numbers for both sexes rose throughout the period except between 1983 to 1990. Income support expenditure was reduced by the reimposition in the 1980s of the income test for those over 70 and the assets test. Changes in the number of DVA pensioners have also affected numbers receiving age pension. This is essentially a cohort effect, as the group of veterans of World War II moved into retirement.

**Figure 13:** Proportion of the population aged 15 years and over receiving social security payments, 1965 to 1997



**Source:** DSS Annual Reports, various years and ABS *Population by Age and Sex, Australian States and Territories* Cat. No. 3201.0, various years.

**Table 7: Number of recipients of cash payments, 1965 to 1998 (000's)**

Payment	At 30 June								
	1965	1970	1975	1980	1985	1990	1995	1997	1998
<b>Income support payments</b>									
Age Pension	628.1	779.0	1,097.2	1,321.9	1,331.8	1,340.5	1,578.7	1,680.2	1,682.6
Wife Pension	3.5	6.6	21.9	30.8	22.9	23.8	39.6	36.6	36.2
Disability Support Pension <sup>1</sup>	107.5	134.5	171.5	236.8	271.5	328.2	464.4	527.5	553.3
Wife Pension	12.8	16.2	28.9	60.2	74.8	91.9	121.8	91.3	79.9
Carer Pension	—	—	—	—	2.7	8.8	20.1	29.6	34.0
Parenting Payment—single <sup>2</sup>	29.7	44.1	102.5	161.6	246.3	248.9	324.9	358.9	372.3
Parenting Payment—partnered <sup>3</sup>	—	—	—	—	—	—	—	239.3	236.6
Class B Widows <sup>4</sup>	35.7	42.8	54.3	75.0	81.6	79.0	55.0	18.9	13.6
Widows Allowance	—	—	—	—	—	—	8.7	17.5	24.7
Mature Age Allowance	—	—	—	—	—	—	39.0	53.4	50.7
Mature Age Partners	—	—	—	—	—	—	15.1	7.3	4.4
Unemployment Allowances <sup>5</sup>	12.7	13.0	160.7	311.2	561.4	419.8	795.5	801.8	790.3
Dependent partners <sup>6</sup>	3.5 <sup>e</sup>	4.4	33.0	66.3	147.2	126.0	—	—	—
Sickness Allowance	10.2	8.8	25.5	36.8	62.0	79.2	46.1	15.8	16.3
Dependent partners <sup>6</sup>	4.2 <sup>e</sup>	3.9 <sup>e</sup>	11.2 <sup>e</sup>	13.1	20.4	26.3	—	—	—
Special Benefit	2.4	3.8	5.6	20.9	18.9	27.9	20.5	14.6	10.2
Dependent partners <sup>6</sup>	0.9 <sup>e</sup>	1.3 <sup>e</sup>	1.7 <sup>e</sup>	3.4	4.7	8.2	—	—	—
Partner Allowance	—	—	—	—	—	—	216.7	72.1	77.7
Total social security pensioners and beneficiaries	851.1	1,058.5	1,714.0	2,338.0	2,846.3	2,808.4	3,746.2	3,964.8	3,982.9
Student Assistance	18.5	35.2	67.2	81.9	93.7	339.1	433.8	404.7	384.6
Department of Veterans Affairs Service Pensions <sup>7</sup>	65.2	74.4	121.6	240.0	392.5	386.3	347.7	389.5	387.6
<b>Total income support recipients</b>	<b>934.8</b>	<b>1,168.1</b>	<b>1,902.8</b>	<b>2,659.9</b>	<b>3,332.5</b>	<b>3,533.8</b>	<b>4,527.7</b>	<b>4,759.0</b>	<b>4,755.1</b>
<b>Child payments</b>									
Basic Family Payment (Children)	3,710.6	4,079.4	4,283.3	4,233.9	4,323.5	3,672.5	3,486.3	3,491.2	3,418.9
Additional Family Payments (children)									
Income support Workforce	—	—	372.9 <sup>8</sup>	524.8	779.2	710.8	983.4	1,196.2	1,220.4
	—	—	—	—	74.9	437.5	687.9	625.0	579.0

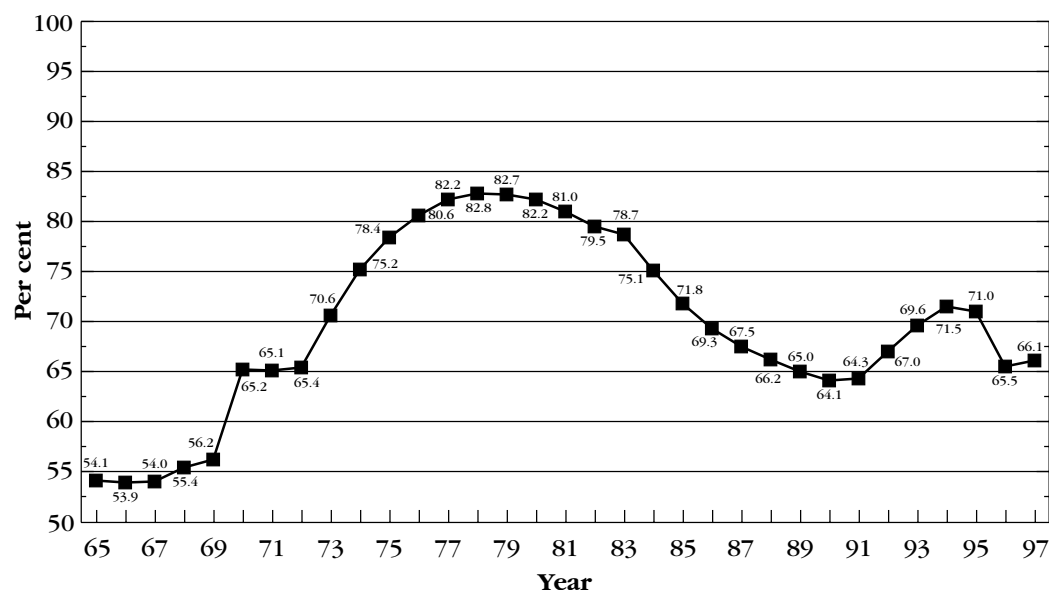
**Notes:**

e: estimate. -: not applicable or not available.

1. Includes Sheltered Employment and Rehabilitation allowees in relevant years. 2. Includes Class A Widows' Pension, Supporting Mothers/Parents' Benefit and Sole Parent Pension. 3. Originally Parenting Allowance—excludes those receiving only Basic Parenting Payment. 4. Includes Class C Widows Pension, Widowed Persons and Bereavement Allowances. 5. Includes Job Search, Newstart and Youth Training allowances. 6. Partners of unemployment, sickness or special benefits received partner Allowance from September 1994 and Parenting Allowance from July 1995. 7. Service Pensioners only. 8. Figure is for 1976.

**Sources:** Department of Social Security, *Ten Yearly Statistical Summary*, *Annual Report*, and *DSS Customers: A Statistical Overview*, various years.

**Figure 14:** Proportion of the population of Age Pension age receiving social security payments, 1965 to 1997



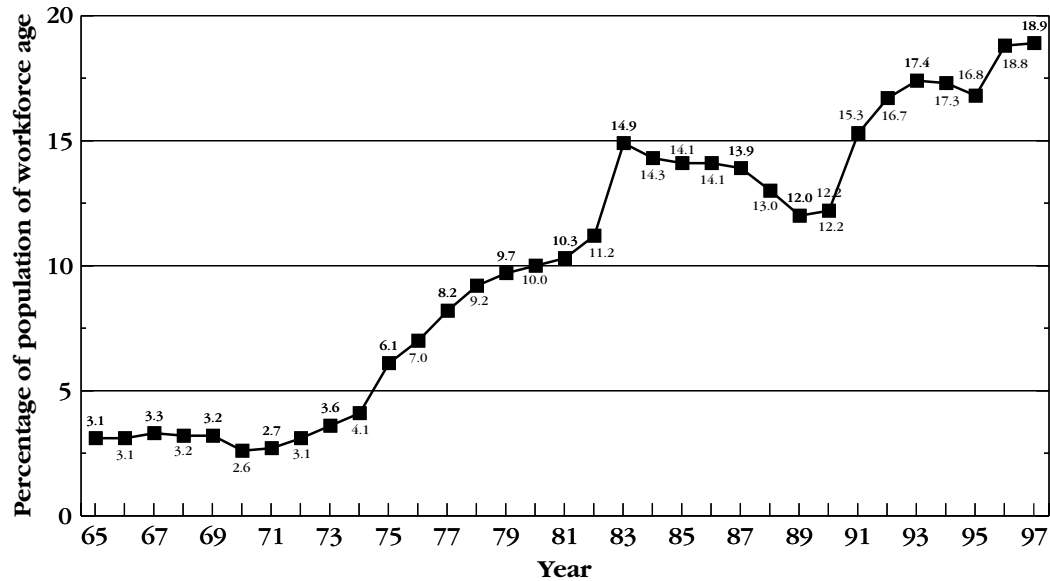
**Source:** DSS Annual Reports, various years and ABS *Population by Age and Sex, Australian States and Territories* Cat. No. 3201.0, various years.

Coverage of age pensions increased significantly in the 1970 to 1975 period, due to the phased abolition of the means test. Reductions in coverage were significant in the period 1980 to 1990, associated mainly with the reimposition of the income test on pensioners aged 70 years and over and the reintroduction of the assets test.

Figure 15 shows receipt of pensions and benefits among persons of workforce age from 1965 to 1997. The proportion of the population of workforce age receiving social security income support remained below 5 per cent up until 1974. In this period, the majority of male recipients were invalid pensioners while women received invalid, wife or widow pensions. While reliance on these payments grew after 1975, the growth in unemployment benefits from 1975 onwards dramatically altered the profile of workforce age income support.<sup>19</sup> The number of recipients also increased as the result of the introduction of new payments for sole mothers, the number of which initially grew rapidly. The proportion of the population of workforce age receiving payments grew to 15 per cent by 1983, and then fell back to 12 per cent in 1989, before rising again to 18.9 per cent in 1997.

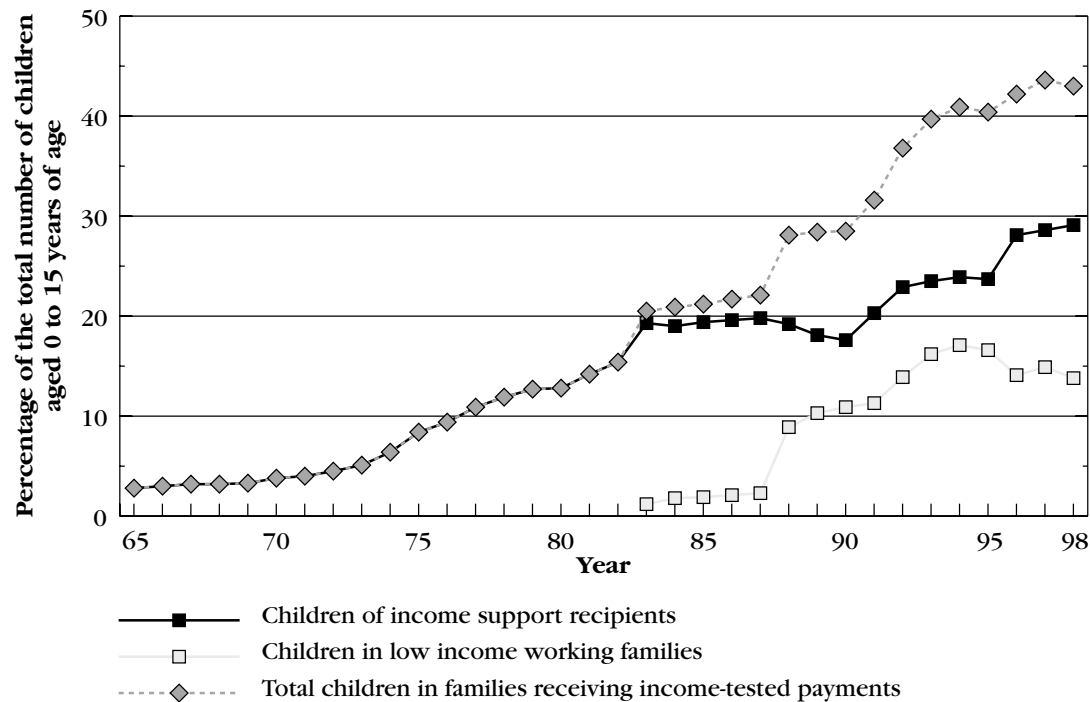
Figure 16 shows trends between 1978 and 1997 in the proportion of children living in families receiving income-tested payments from the former DSS. This percentage increased from 11.5 per cent in 1978 to 37.9 per cent in 1997. Receipt of basic income support payments is directly responsible for around 43 per cent of this total increase (around 11 per cent of children). Within the income support group, just under 60 per cent of the increase (6.5 per cent of children) is associated with the increase in the number of sole parent families in the community and changes in the coverage of sole parent pensions/Parenting Payment among this group. The balance of the increase in children in families receiving income support payments is

**Figure 15:** Proportion of population of workforce age receiving social security payments, 1965 to 1997



Source: DSS Annual Reports, various years and ABS *Population by Age and Sex, Australian States and Territories* Cat. No. 3201.0, various years.

**Figure 16:** Proportion of children in families receiving income-tested social security payments, 1978 to 1998



Source: DSS Annual Reports, various years and ABS *Population by Age and Sex, Australian States and Territories* Cat. No. 3201.0, various years.



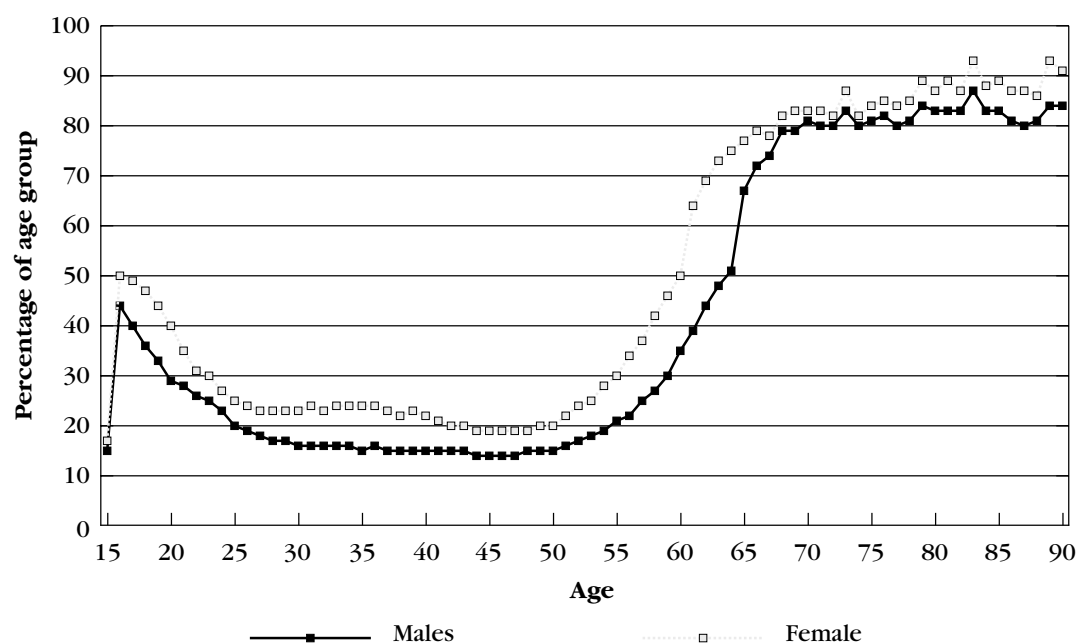
caused by increases in unemployment among families with children, particularly in the first part of the 1980s and again in the early 1990s.

The balance of the increase (15 per cent of children) was caused by the introduction of payments for low-income working families in 1983, and the subsequent extension of this assistance to many more families in the late 1980s and early 1990s. The high proportion of children in families receiving these payments reflects the generosity of income-testing arrangements, as discussed earlier. For example, the cut-out point for payments for a family with one child under 13 years receiving rent assistance was 72 per cent of median family income (for one-child families) in 1996-97. The cut-out point for families with three children was nearly 90 per cent of the median income for families of this type. For sole parents, the cut-out point for a family with one child was 1.7 times the median total income of all sole parent families and 98 per cent of the median earned income of all those in employment.

There are also important differences in receipt of payments by gender, as is shown in Figure 17. Two-thirds of social security recipients currently are women. There are a number of reasons for this. Pension age is lower for women than for men, there are more women than men over 65, in any case, and their average age is higher. Eighteen per cent of men of pension age are receiving veterans' pensions, compared with only 8 per cent of women. Finally, women are slightly more likely than men at all ages to be receiving income support, presumably because of lower income and assets.

For the workforce age population, men and women have very different patterns in payment use. Men predominantly receive unemployment payments (51 per cent of recipients), disability

**Figure 17:** Income support recipients by age and gender, June 1998



**Source:** DSS Annual Report 1997-98 and ABS *Population by Age and Sex, Australian States and Territories* Cat. No. 3201.0, various years.

payments (29 per cent) or student assistance (14 per cent). Only 6 per cent receive payments as parents, carers or partners.

Over half the women are receiving payments as parents or carers (40 per cent) or as partners or widows (15 per cent), very significantly reducing their reliance on unemployment or disability payments.

Young people (16 to 26) have a slightly higher rate of reliance on income support than the 27 to 50 year old age group, largely due to student assistance. The proportion receiving income support increases markedly from 19 per cent at 51, reaching 40 per cent by age 59 and 80 per cent by 67.

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

Table 8 provides estimates of the distribution of receipt of government pensions and allowances from all sources as a percentage of the total income of Australian income units in 1997-98. The table shows patterns of receipt by age group, for the non-aged as a group, and for sole parents and couples with children. The identification of cash benefits as the income unit's principal source of income means that it is the largest single source, usually but not always 50 per cent or more. In terms of substantial reliance on income support, the column showing those receiving 90 per cent or more of their income from benefits is probably most relevant. Thus, while total coverage of pensions and allowances among the population aged 65 years and over is generally around 80 per cent, this table shows that 55 per cent of the age group receive 90 per cent or more of their income from cash benefits.

**Table 8:** Contribution of government pensions and allowances to gross income of income units, by age of reference person in income unit and type of income unit, Australia, 1997-98  
Per cent of income units by per cent of gross income

Type of Income Unit	Nil and less than 1	1 and less than 20	20 and less than 50	50 and less than 90	90 and over	Principal Source of Income
Reference person 15-24	69.1	1.9	2.7	2.8	16.2	19.0
Reference person 25-34	60.0	14.0	5.1	4.2	14.1	18.3
Reference person 35-44	45.8	28.9	6.6	4.6	12.9	17.7
Reference person 45-54	63.4	15.0	3.6	3.5	12.8	16.4
Reference person 55-64	52.4	5.7	4.2	7.7	28.1	36.3
Reference person 65 +	13.6	4.0	8.8	16.4	56.5	73.4
All non-aged income units	58.0	14.0	4.0	4.0	15.0	20.0
Couples with children	34.7	44.2	8.9	2.9	8.3	11.2
Sole Parents	10.7	16.7	11.0	23.8	36.8	61.6
All income units	50.3	12.5	5.3	6.5	23.0	29.6

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

**Source:** Australian Bureau of Statistics, *Income Distribution 1997-98*, Catalogue No. 6523.0.

## 4.2 Income support dynamics

### *Duration of receipt*

Tables 9 to 11 show available data on trends in duration of receipt of social security benefits. Table 9 shows that the average current duration of receipt of unemployment payments<sup>20</sup> has increased from around 40 weeks in 1981 to nearly 86 weeks in 1997, with the median current duration increasing from around 20 weeks to 51 weeks over the same period. Average durations of receipt of sickness allowances fell substantially in the early 1990s, but have apparently increased in the past year or so. Mean and median current durations of Special Benefit have risen over the last 10 years.

Table 10 shows trends in the distribution of current durations of receipt of unemployment allowances over the last 20 years. There has been a notable increase in the proportion of current recipients with longer durations. For example, it can be seen that between 1992 and 1993 there was a very large jump—from around 10 to 20 per cent—in the proportion of beneficiaries who had been receiving benefits for more than two years, in this case since the onset of the 1990–91 recession. In 1977, only 1.7 per cent of then current recipients had been

**Table 9:** Trends in duration of receipt of unemployment, sickness and special benefits and allowances, 1981 to 1997 (weeks)

Year	Unemployment		Sickness		Special	
	Mean	Median	Mean	Median	Mean	Median
1981	40.1/37.2	20.1/21.4	-	-	-	-
1982	39.1/37.4	18.6/21.3	-	-	-	-
1983	46.0/42.7	29.7/27.1	-	-	-	-
1984	57.1/47.5	33.6/27.7	-	-	-	-
1985	64.6/50.0	35.6/26.6	-	-	-	-
1986	60.6	28.1	51.4	24.7	-	-
1987	62.0	28.3	53.0	25.1	-	-
1988	65.8	30.9	52.5	26.4	-	-
1989	70.8	31.7	54.1	25.2	69.4	30.3
1990	56.6	22.4	56.0	26.0	66.6	26.3
1991	44.0	21.1	51.0	25.2	69.3	29.1
1992	50.0	37.0	26.0	14.0	66.0	17.0
1993	66.0	35.0	22.0	14.0	76.0	31.0
1994	70.7	37.3	23.5	15.7	73.2	32.3
1995	71.5	34.0	23.5	15.3	72.5	29.3
1996	89.2	32.7	27.7	20.6	76.8	34.0
1997	85.7	51.0	55.2	22.0	110.3	86.0

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

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

receiving benefits for more than two years, but in 1997 more than a quarter of current recipients had been receiving unemployment benefits for more than two years. In terms of raw numbers, these trends are more stark—in 1977 there were just over 4000 unemployment beneficiaries who had been receiving payments for two years or more, while in 1997 there were 198,000 allowees in that situation.

As duration extends, the number of recipients in this situation falls quite rapidly. Table 11 shows estimates of the ‘survival rates’ on benefits of persons granted in each calendar year from 1983 to 1997<sup>21</sup> as well as estimates of conditional exit rates. The estimated survival rates mean, for example, that of all individuals granted an unemployment allowance in the 1992-93 financial year, 28.9 per cent were still receiving a payment at 30 June 1993, 8.1 per cent were still on payments at 30 June 1994, and only 3.4 per cent were still receiving payments at 20 June 1995. The conditional exit rate is simply the year-specific proportion of the cohort who leave unemployment payments. For example, 71 per cent of those granted a payment in 1993 had left by the end of the financial year; of those remaining, a further 72 per cent left by the end of the next year, and 58 per cent of the remainder by the end of the next financial year.

**Table 10:** Distribution of current duration of receipt of unemployment payments, 1977 to 1997, (Percentage by duration)

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

**Note:** Rules indicate span of several years.

**Source:** Department of Social Security, *Annual Report*, various years.

**Table 11:** Estimated survival and exit rates on unemployment payments, 1983 to 1997

Year of grant	Estimated survival rate (%)			Conditional exit rate (%)		
	End of year	Next full year	Second year	End of year	Next full year	Second year
1983	43.2	11.3	5.1	56.8	73.8	54.9
1984	38.4	9.5	4.3	61.6	75.3	54.7
1985	42.1	10.6	4.6	57.9	74.8	56.6
1986	47.1	11.4	4.7	52.9	75.8	58.8
1987	42.8	9.7	3.8	57.2	77.3	60.8
1988	41.0	8.9	3.2	59.0	78.3	64.0
1989	35.0	7.3	3.3	65.0	79.1	54.8
1990	40.3	11.4	6.8	59.7	71.6	41.9
1991	40.9	18.1	7.6	59.1	55.7	57.9
1992	30.6	9.9	4.7	69.4	67.5	52.8
1993	28.9	8.1	3.4	71.1	71.9	58.2
1994	39.9	10.4	3.9	60.1	74.0	62.8
1995	41.6	12.7	6.6	58.4	69.6	48.2
1996	45.3	16.0	-	54.7	64.7	-
1997	38.6	-	-	61.4	-	-

**Source:** Calculated from Table 10.

Table 12 shows estimated trends in the duration of receipt of sole parent payments, although the data compare mean durations in 1983 and 1986 with median durations in 1996 and median completed duration for pensioners who ceased to receive payments in 1995. It can be seen that in 1983 around 13 per cent of female supporting parent beneficiaries and 32 per cent of Class A widow pensioners (or 20.3 per cent of all female recipients) had been receiving payments for five years or more. This proportion had increased by 1986 to 17 per cent of female SPBs (Supporting Parent Beneficiaries) and half of Class A widows, or 27.4 per cent of female recipients at the time. By June 1996, the proportion of female recipients who had been receiving payments for five or more years had fallen slightly to 24 per cent.

It can also be seen that completed durations for those who exit are very much shorter than current durations. The median current duration for all recipients in 1996 was two years, but the median completed duration for those who ceased to receive a pension at any time in 1995 was around one year.

In summary, these data should be regarded as indicative rather than definitive. Nevertheless, they are consistent with a picture of increasing durations of receipt of unemployment payments, but not of sole parent payments, although the proportion of sole parents with current durations of receipt of two years or more is around 50 per cent, or twice the level for the unemployed.

Overall, the great majority of those granted an unemployment payment in any one year leave unemployment benefits within a relatively short period. It should be very strongly emphasised,

however, that this is not inconsistent with very long durations for a subset of recipients. Moreover, some proportion of those exiting unemployment allowance may go on to other social security payments, such as Disability Support Pension, Mature Age Allowance, or Age Pension.

There are insufficient longitudinal data to determine the precise patterns of these flows for broad groups of social security recipients in Australia.<sup>22</sup> What is known of these patterns is consistent with a fairly high level of ‘cycling through’ social security receipt: individuals receive social security for a few months, then get a job or repartner for a limited time, lose the job after a few months, claim social security, and so on. This sort of pattern is likely to be affected by changes in the workforce and in the conditions attached to jobs. For example, as employment becomes more casualised and precarious, or simply if job turnover increases, individuals will be more likely to experience periods when they will need to claim social security payments.

**Table 12:** Duration of receipt of sole parent payments, 1983, 1986 and 1996 (%)

	<6 months	6-12 months	1-2 years	2-5 years	5 + years	Total (000)	Duration (years)
<b>At June 1983</b>							<b>Mean</b>
Female SPB	37.3	-	49.7	-	13.0	132.36	2.36
Class A Widows	11.6	-	46.4	-	31.9	84.26	5.03
Male SPB	47.6	-	44.8	-	7.6	7.87	1.74
<b>At June 1986</b>							<b>Mean</b>
Female SPB	32.0	-	50.8	-	17.2	166.66	2.76
Class A Widows	11.5	-	38.0	-	50.4	74.18	5.65
Male SPB	39.1	-	49.2	-	11.7	10.07	2.18
<b>At June 1996</b>							<b>Median</b>
Women	16.7	12.5	17.9	28.8	24.0	320.0	2.3
Men	25.8	16.8	20.1	25.6	11.6	21.9	1.4
Persons	17.3	12.8	18.1	28.6	23.2	342.0	2.1
<b>Ceasing in 1995</b>							
Women	31.1	17.0	17.8	20.7	13.3	-	1.1
Men	42.5	20.3	16.5	15.6	5.2	-	0.8
Persons	32.2	17.3	17.7	20.2	12.6	127.3	1.0

**Source:** Raymond, J. *Bringing Up Children Alone*, p. 62; Australian Bureau of Statistics, *Australian Social Trends 1997*, p. 38.

## 5 Changes in the labour force

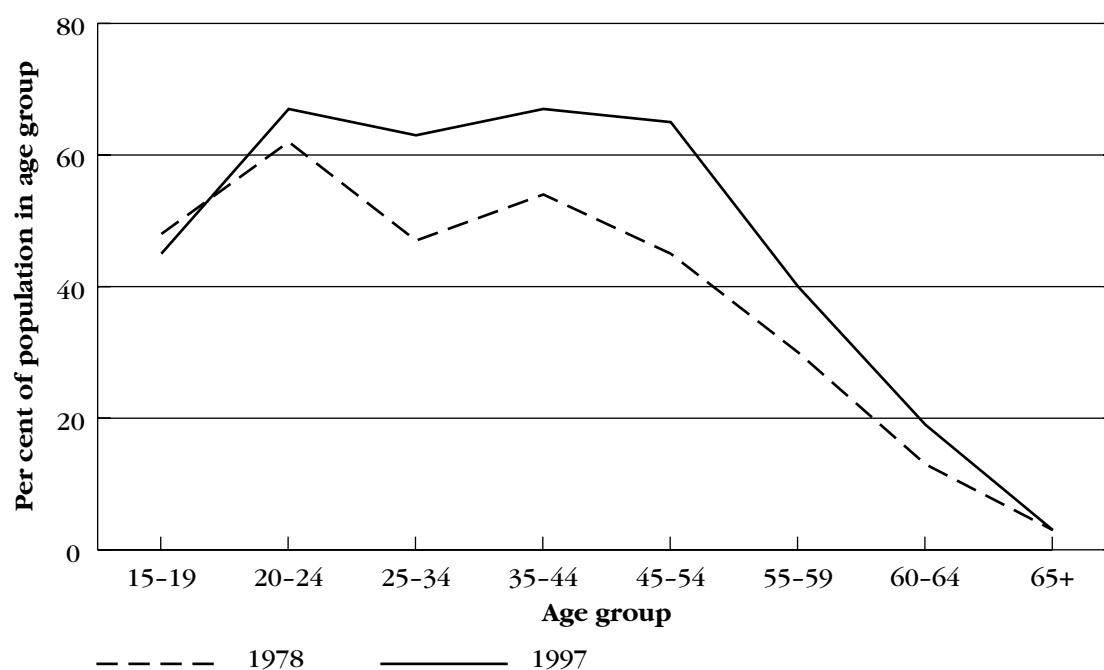
### 5.1 Australian trends

Over the past two decades, the proportion of the population over 15 who are employed has fluctuated at around 60 per cent, but there have been significant shifts between men and women and between full and part-time employment.<sup>23</sup>

Figures 18 and 19 show employment to population ratios by age group for women and men in 1978 and 1997. Men have experienced a fall in employment at all ages, particularly among those aged 55 and over. Men aged 15 to 19 have lost full-time employment but their part-time employment has increased. Female employment has increased at all ages except for 15 to 19 year olds. Some of the increase is in full-time work but most is in part-time work. The greatest net gains have been among married women. Some groups of single women have increased their employment ratio, but this has been offset by the increase in the proportion of sole parents with lower employment levels.

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

**Figure 18:** Employment to population ratio, women 1978 and 1997

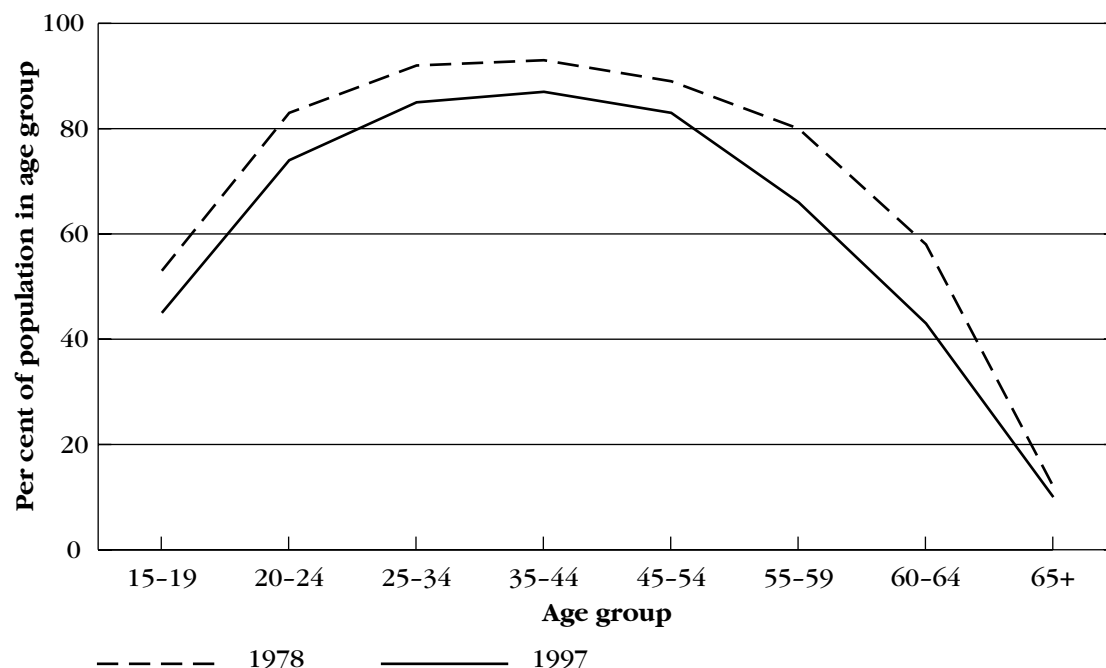


**Source:** Calculated by J. Perry, Department of Family and Community Services.

The proportion of women employed has risen over the past two decades for all ages except 15 to 19 year olds. The increase in female social security numbers has therefore been associated with the loss of financial support from partners, either because the partner is without work or because a greater proportion are not partnered. The employment increases among women have not played a large role in reducing the need for income support for several reasons:

- A large part of the employment growth for women has been in part-time work, which might not pay enough to be above the income support cut-out points.
- Much of the gain has been among women with employed partners, while those whose partners are unemployed are unlikely to have jobs themselves.
- The proportion of women aged 20 to 59 who are not partnered has grown from 23 per cent to 33 per cent over the last 20 years, and many of these have dependent children.

**Figure 19:** Employment to population ratio, men 1978 and 1997



**Source:** Calculated by J. Perry, Department of Family and Community Services.

Figures 20 to 22 show how the number not employed was distributed between the unemployed and those not in the labour force for the years between 1978 and 1997. The two groups are shown as percentages of the population for unmarried women, married women and men. For men, there has been cyclical growth in unemployment and a steady decline in labour force participation. For women, labour force participation and employment have risen over the period but so has unemployment. Unmarried women have a much higher labour force participation rate than married women but also have very high levels of unemployment.



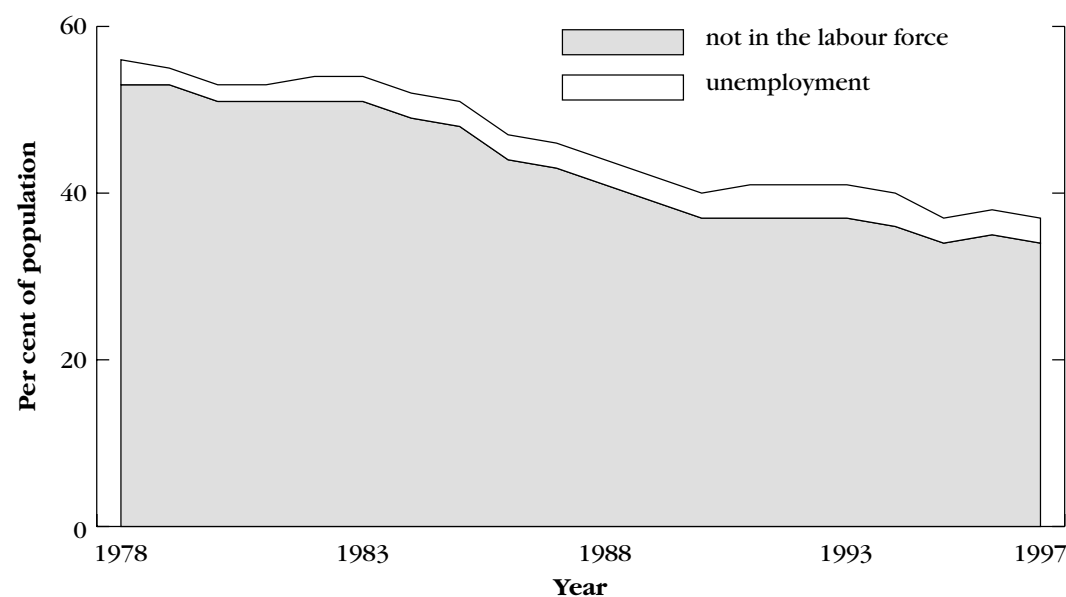
Age breakdowns of these groups show conflicting trends and have important policy implications. For example, from 1978 to 1997, the labour force participation rate for males aged 20 to 24 has fallen slightly, but their unemployment rate has almost doubled. Older men, on the other hand, have had a lower unemployment rate rise but have significantly reduced their labour force participation rate.

**Figure 20:** Unemployment and non-participation, not married women, aged 20–59, 1978 and 1997

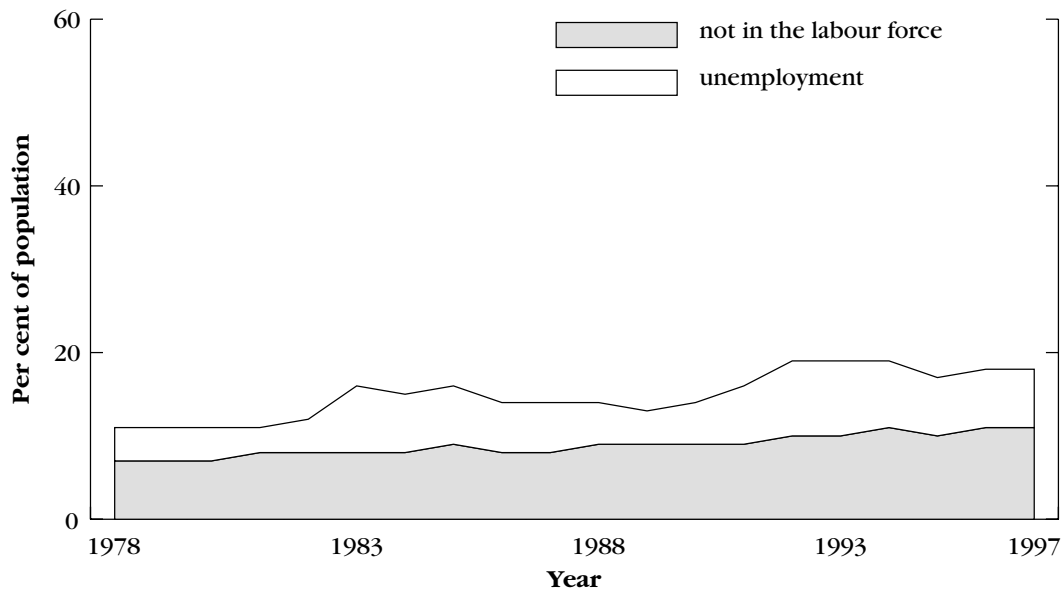


Source: Calculated by J. Perry, Department of Family and Community Services.

**Figure 21:** Unemployment and non-participation, married women, aged 20–59, 1978 and 1997



Source: Calculated by J. Perry, Department of Family and Community Services.

**Figure 22:** Unemployment and non-participation, men, aged 20–59, 1978 and 1997

Source: Calculated by J. Perry, Department of Family and Community Services.

## 5.2 Unemployment and labour market developments in OECD countries<sup>24</sup>

### *Trends in unemployment*

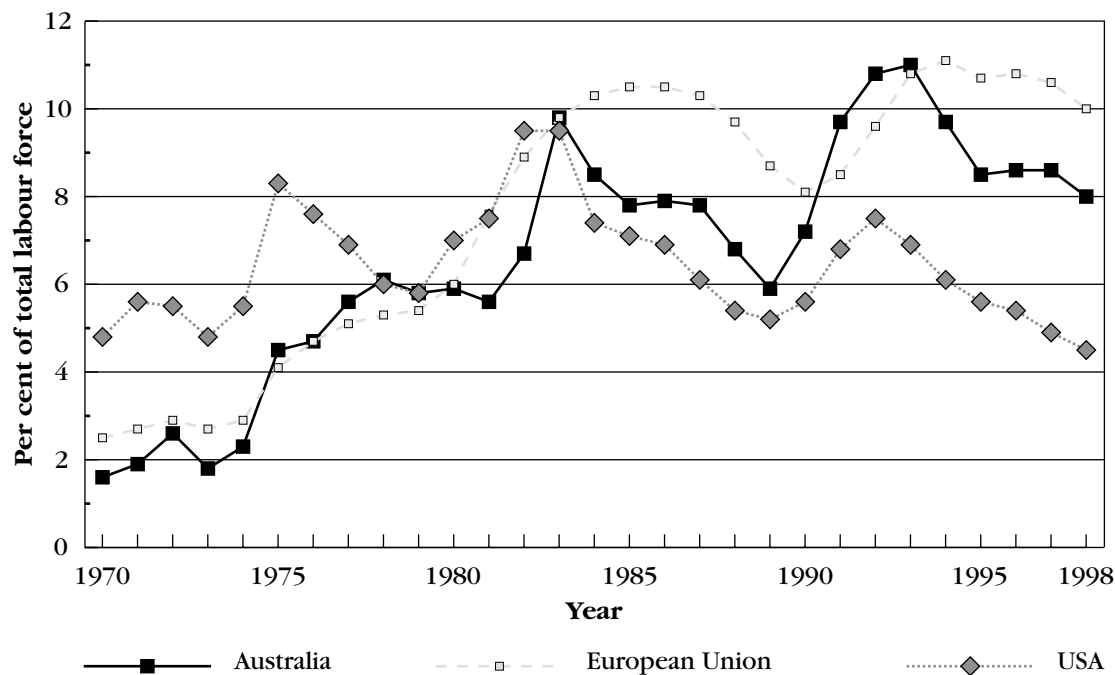
Figure 23 shows trends in unemployment in selected countries over the past 30 years. Up until 1974, Australian unemployment was generally below 2 per cent of the labour force, below the level in Europe and the United Kingdom, and well below the level in Canada and the United States. The increase in unemployment in the 1970s in all these countries then showed a broadly similar pattern. It is notable, however, that the United States began to show a strong recovery after 1975, while there was a more limited reduction in unemployment in Europe. Similarly, the reduction in unemployment in Australia between 1978 and 1982 was slight, before unemployment again increased to reach 10 per cent of the labour force in 1984.

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

Since 1983, however, Australia has also diverged from the European pattern, notably in the strength of its recovery after 1984 and since 1993. (This is also a much sharper recovery than in the late 1970s.) This may partly reflect the fact that the trend for Europe is an average for the 12 countries of the European Union (EU).<sup>25</sup> Unemployment within the EU in the 1980s varied

from under 2 per cent in Luxembourg to more than 15 per cent in Ireland and Spain. Apart from Luxembourg, only Germany, Greece, and Portugal among EU countries maintained a lower average unemployment rate than Australia over the 1980s.

**Figure 23:** Trends in unemployment rates, Australia, the United States and the European Union, 1970 to 1998



\* 1998 Projected

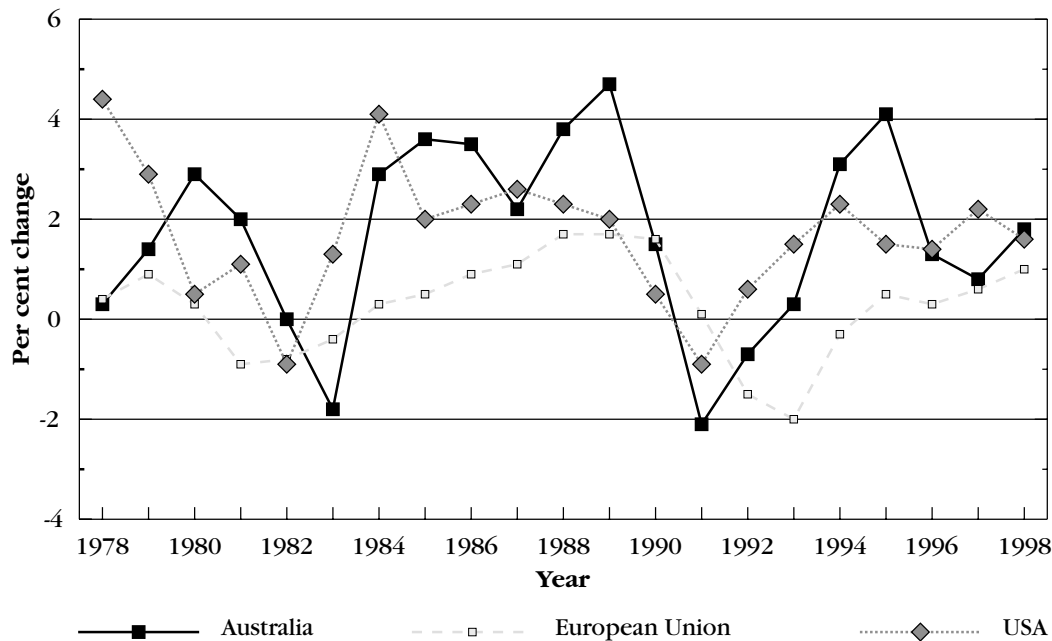
Source: OECD *Employment Outlook*, various years.

### Employment growth

Figure 24 shows trends in employment growth since the late 1970s. In the United States, employment growth only fell below European levels in the period between 1989 and 1991, as a consequence of its earlier entry into recession, and when Europe entered recession its decline in employment was greater.

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

While Australia's overall employment growth<sup>26</sup> has been substantial, this has not translated into sustained reductions in unemployment. The main reasons for this are that Australia's population growth has been among the highest in the OECD, due primarily to the younger age structure of Australia and the high level of net migration.<sup>27</sup> There has also been a substantial increase in female labour force participation, implying that much of the employment growth has gone to those outside the labour force rather than the unemployed.

**Figure 24:** Trends in employment growth, 1978 to 1998 (% change from previous period)

Source: OECD *Employment Outlook*, various years.

### Unemployment flows

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

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

In many European countries, relatively few people become unemployed, but once unemployed very few people leave unemployment. In contrast, in Canada and the United States much higher proportions of the population enter unemployment, but many leave rapidly—in 1994 nearly 40 per cent of the United States unemployed either found jobs or left the labour market each

month. It is also notable that the Scandinavian countries have relatively high rates of outflow, with widely varying inflows. It is likely that a sizeable proportion of these outflows in Scandinavian countries is related to the effects of labour market programs.

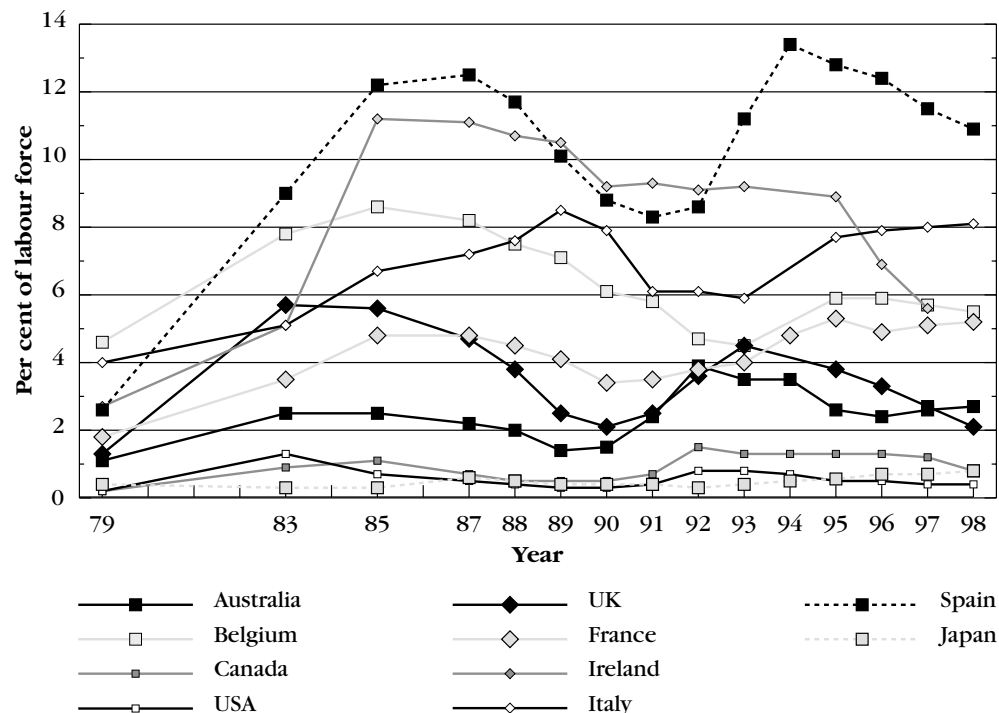
The rate of inflows varies between 0.24 per cent of the population (the Netherlands) and 2.83 per cent (Finland), while the rate of outflows varies between 2.7 per cent (Spain) and 37.6 per cent (the United States). In general terms, Australia falls between the two extremes of North America and continental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

### Long-term unemployment

Slower flows may be associated with greater security, or at least fewer changes in status, but they also may result in longer durations of unemployment, with more adverse implications for the welfare of those out of work. Figure 25 shows trends in long-term unemployment, here defined as being unemployed for 12 months or more. The number of long-term unemployed is expressed as a percentage of the labour force, thus providing a standard measure across countries.

In many countries, there has been a substantial rise in long-term unemployment over the past 15 years. Of the countries included in this chart, long-term unemployment has remained low at less than 1 per cent of the labour force in Canada, the United States and Japan. Over most of the 1980s, Australia fell into a second group with long-term unemployment around 2 per cent of

Figure 25: Trends in long-term unemployment, 1979–1998



Source: OECD *Employment Outlook*, various years.

the labour force, the group including New Zealand, Denmark and the Netherlands in the second half of the 1980s. Long-term unemployment increased rapidly in the late 1980s and early 1990s, but has fallen since 1992. France and the United Kingdom experienced long-term unemployment rates of around 3 to 4 per cent over much of the 1980s. Italy and Belgium experienced higher rates again, with the highest rates of long-term unemployment being in Spain. In the past three years or so, long-term unemployment has fallen in the United Kingdom, and also markedly in Ireland.

### *Employment-to-population ratios*

It was noted earlier that, despite the fastest rate of employment growth of all OECD countries, Australia's relative unemployment performance has been less satisfactory. The earlier discussion pointed out that rapid employment growth has not been associated with corresponding reductions in unemployment, because of the growth in the size of the population of labour force age.<sup>28</sup>

In general terms, there have been substantial falls in male employment to population ratios in most OECD countries over the period 1973 to 1994. Most of this decline was between 1973 and 1983.<sup>29</sup> This was followed by a recovery in the English-speaking nations, but a further, though less steep, fall after 1990, and the beginnings of recovery since 1993. On this criterion, Australia's employment performance has come in just over the average for OECD countries, although certainly better than the performance of most of continental Europe and the other English-speaking nations apart from the United States.

Over the same period, female employment has grown in most OECD countries. The Australian pattern appears to follow the trend in the United States and the United Kingdom, although at a lower level. Australian female employment ratios are just above the OECD average, and currently very similar to the levels in Finland, Canada and New Zealand.

To a very large extent, the most significant differences in employment to population ratios are among young people and those in pre-retirement age groups, as shown in Figure 26. For women aged between 15 and 24 years, the employment to population ratio ranges between 19 per cent in France and around 61 per cent in Switzerland. The employment to population ratio for this group is 55.6 per cent in Australia, the fourth highest of 21 OECD countries, being exceeded only in Denmark, the United Kingdom and Switzerland. For men in this age group, the employment to population ratio ranges between 25 per cent in France and 61 per cent in the United States. Australia and New Zealand are ranked equal fifth at 59 per cent, being more than a quarter higher than the average for the 21 countries.

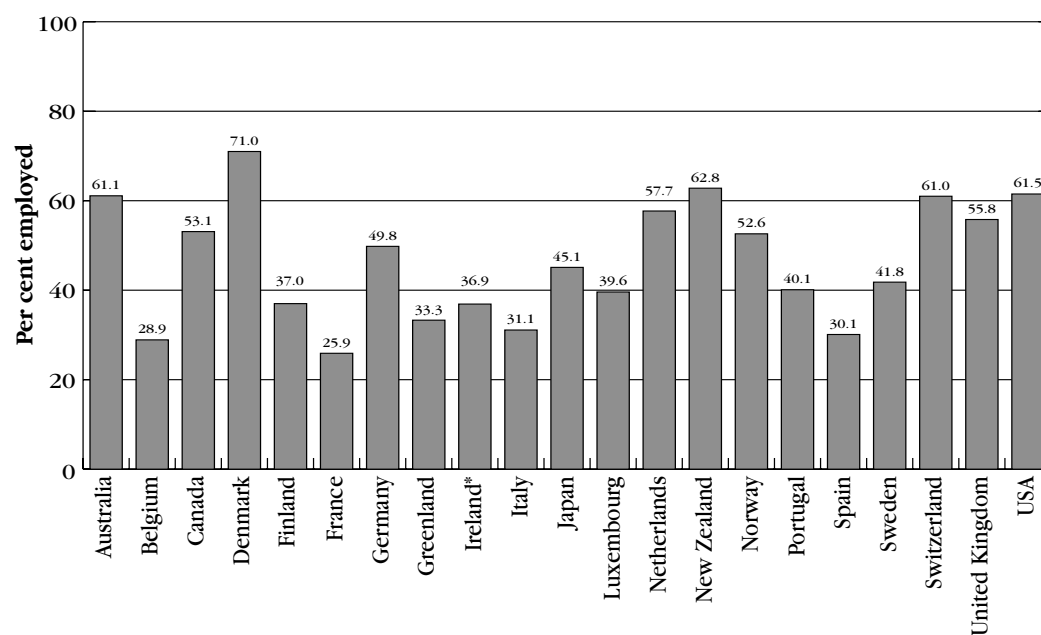
While not shown in the chart, for men aged between 25 and 54 years, the Australian employment to population ratio is just under the OECD average ratio of 86 per cent, ranking 12th. Among women aged 25 to 54 years, Australia ranks 13th at 63 per cent.

For men aged 55 to 64 years, the Australian employment ratio is just over the OECD average at around 54 per cent. This ratio is highest in Japan at 81 per cent, and is also very high in Switzerland. The ratio is low in Belgium, Finland, France, Italy and Luxembourg. Employment

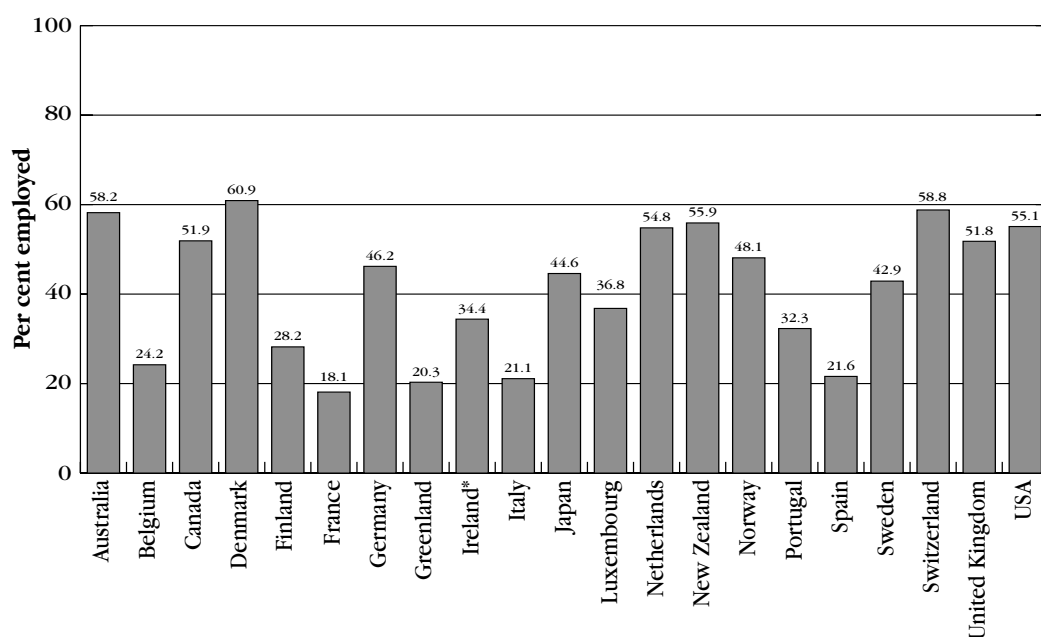
among women aged 55 to 64 years is highest in Sweden and Norway and is lowest in Luxembourg, Belgium and Italy. The Australian level is below the OECD average for this group, but exceeds that in eight other OECD countries.

**Figure 26: Employment to population ratios (%) for selected demographic groups, 1995**  
(% for each group employed)

#### Males, 15–24



#### Females, 15–24

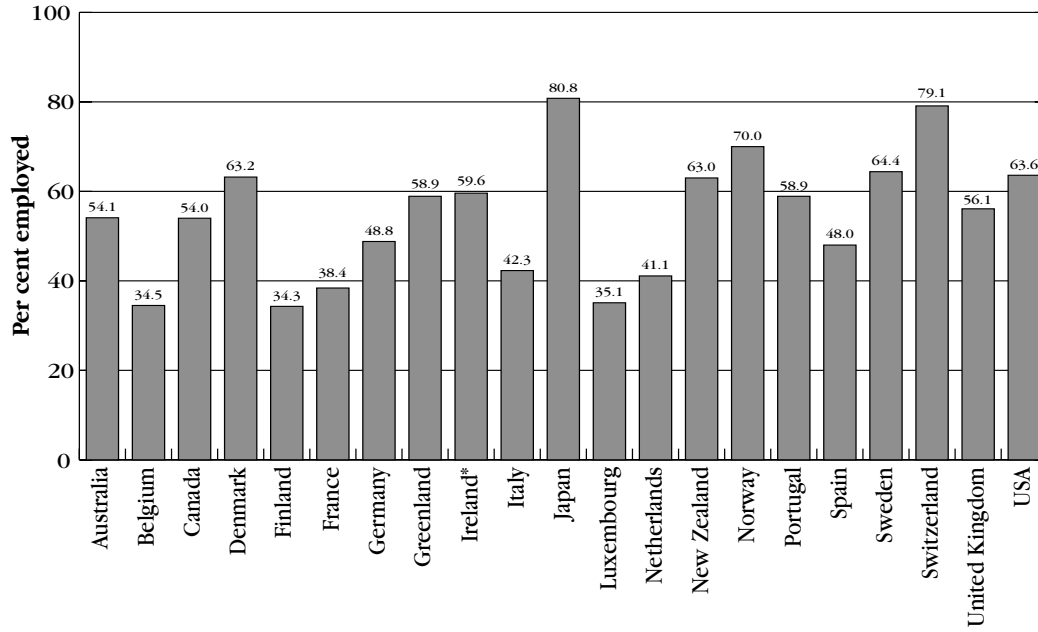


\* All Ireland data 1994

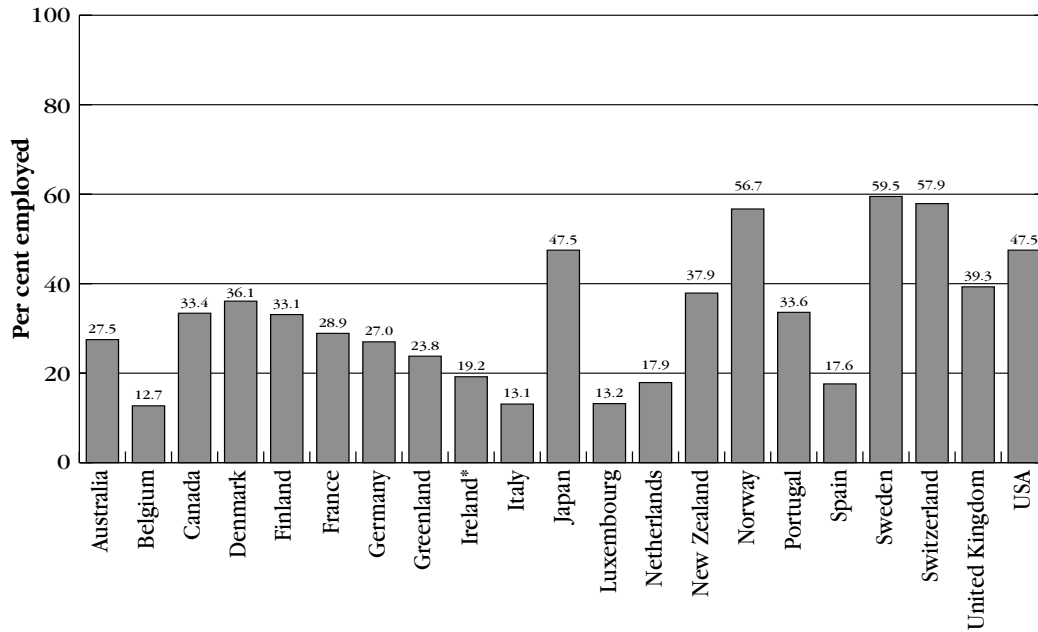
Source: OECD *Employment Outlook*, various years.

**Figure 26: Employment to population ratios (%) for selected demographic groups, 1995**  
 (% for each group employed) *continued*

**Males, 55–64**



**Females, 55–64**



\* All Ireland data 1994

Source: OECD *Employment Outlook*, various years.



Trends in employment to population ratios in the 1980s therefore suggest that the labour markets in the English-speaking countries did perform better—in trend terms—than did the labour markets of most European countries, although the performance of the Scandinavian countries, and Japan and Switzerland, was generally more successful in terms of maintaining higher levels of employment.<sup>30</sup> The United States and Australia did better than either Canada or the United Kingdom.

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

### *The role of self-employment*

In 1990, employment in agriculture (including employees) was 5.6 per cent of civilian employment in Australia compared to an OECD average of 7.5 per cent. According to recent OECD (1992) estimates, non-agricultural self-employment in Australia was equal to 12.4 per cent of non-agricultural civilian employment in 1990, exactly the OECD average. The proportion of the non-agricultural self-employed with employees was 36 per cent in Australia, also around the OECD average. It is worth noting that the level of self-employment in Australia was broadly stable as a percentage of total employment over the 1980s, although this means that the number of self-employed people has grown rapidly (as has the number of employees). In contrast, the proportion of all workers who are self-employed has grown significantly in the United Kingdom, Portugal and New Zealand

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

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

### *Unemployment and family status*

From a social protection perspective, unemployment may raise particular concerns to the extent that it impacts on families. This is partly because more people will be adversely affected than is indicated by the unemployment rate. In addition, there will be concerns that children's education and general welfare will suffer, or that their own future work status will be undermined by the lack of a 'positive role model' in work. This later aspect will be dependent on the extent of long-term unemployment among parents. In Europe, such situations are seen to

carry the danger of leading to 'exclusion' from social life, while in the United States and the United Kingdom similar concerns are expressed in terms of the generation of an 'underclass'. In a broadly similar fashion, the increased level of unemployment in Australia in the early 1980s disproportionately affected families with children and was strongly implicated in the heightened concern with child poverty in the middle and late 1980s.

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

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

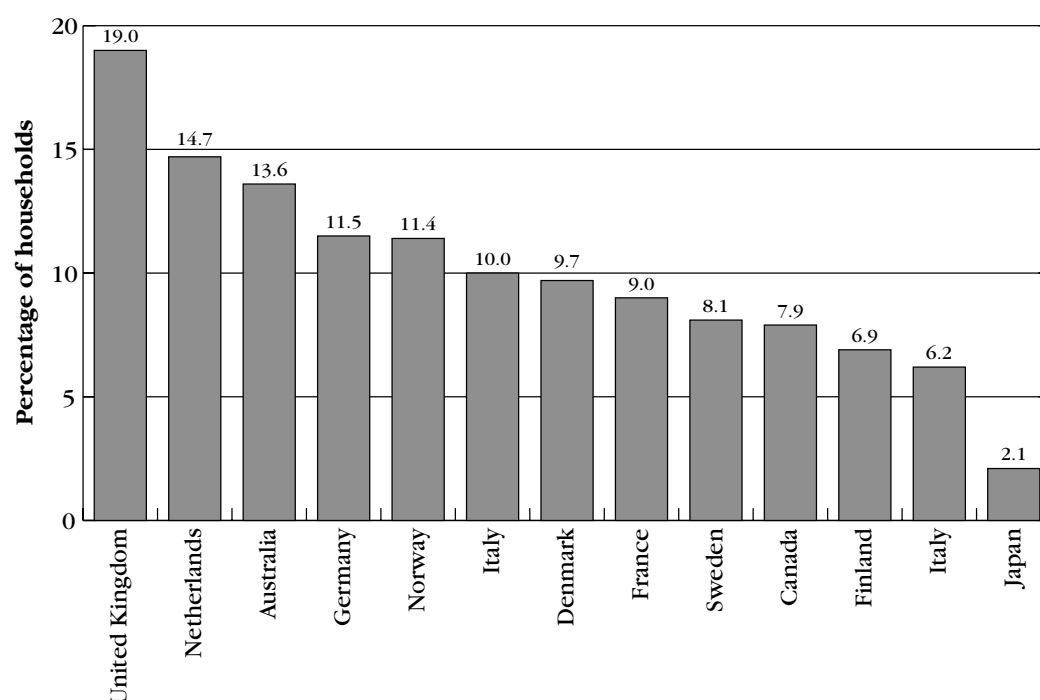
While having a lower incidence of unemployment among families, Australia appears to have a relatively high concentration of non-employment among couples. In the mid-1980s, around 71 per cent of unemployed married men<sup>31</sup> in Australia lived in households in which no-one else was employed. This was the second highest level after Ireland. Concentration was also high in the Netherlands, Belgium, the United Kingdom, Spain and Greece. In 1993, the corresponding proportion was 65 per cent in Australia, exceeded only in Turkey, and with the same countries having high concentrations as in the mid-1980s.

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

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

Correspondingly, a relatively high proportion of Australian households appear to have no workers. Figure 27 shows recent OECD estimates based on Household Expenditure Surveys of the share of households with a head of workforce age and no workers. It is apparent that, of the 13 countries shown,<sup>32</sup> Australia had the third highest level of worklessness among households.

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



Source: OECD *Employment Outlook* 1998.

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

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

It is plausible that the other patterns identified result in part from Australia's means-tested unemployment assistance scheme. In most other OECD countries, apart from New Zealand, the unemployed are initially covered by unemployment insurance, under which entitlements are individually based and not subject to family income tests. Thus, married women whose husbands are in work will be entitled to some insurance benefits, so long as they have satisfied the contribution requirements. In Australia, however, unemployed wives have generally been excluded from unemployment benefit if their husbands are in paid employment. This may partly explain why married women are a lower proportion of the unemployed in Australia than elsewhere.<sup>33</sup>

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

### *The dispersion of earnings*

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

More recent data also show Australia as having a relatively compressed distribution of earnings in the 1980s. Green, Coder and Ryscavage (1990) surveyed earnings inequality for male household heads working full-year, full-time and ranked Australia behind West Germany, but ahead of Sweden, Canada and the United States in the mid-1980s. Saunders and Fritzell (1995) compared wage inequality among full-year, full-time male workers in Australia and Sweden at the beginning and end of the 1980s and concluded that there was little difference between the distribution of wages in the two countries.<sup>34</sup> Bradbury (1993) compared wage distributions for male, full-year, full-time workers in Australia, Canada, Germany, Sweden, the United Kingdom and the United States in the mid-1980s. He found that the distribution of gross wages in Australia fairly consistently ranked as the second least unequal, although if employer social security contributions are considered as part of the wage package, Australia falls to being the third least unequal. Gottschalk (1993) found that earnings inequality among male family heads in Australia was lower in both the early and middle 1980s than in Canada, France, the United Kingdom or the United States, being similar to the Netherlands, although not so equal as in Sweden.

The conclusion that Australia has had a relatively compressed earnings distribution for individuals is also supported by recent OECD studies, which include a wider range of countries and also consider the distribution of female earnings. Table 13 shows trends in the level of earnings inequality in OECD countries between the 1970s and the early 1990s. These figures show the ratio of earnings of full-time workers at different points in the distribution to the median, with D9/D5 being the ratio of the 90th percentile point<sup>35</sup> to the median, D1/D5 being

the ratio of the 10th percentile point to the median, and D9/D1 being the ratio of the 90th percentile to the 10th percentile.

In 12 of the 17 countries, the dispersion of earnings increased over the 1980s, although, as noted by the OECD, this increase in inequality was small—except in the cases of the United States and the United Kingdom. In Australia, Canada and the United States, the increased dispersion appeared to be associated with declines in the real level of wages at the lower level, while in the other countries where inequality increased, it was associated with more substantial real increases at higher earnings levels. For example, according to these OECD figures, the real earnings of the 10th percentile of male earners in the United Kingdom increased by 11 per cent, but the increase at the 90th percentile was 51 per cent.<sup>36</sup>

In summary, despite the increase in earnings inequality in Australia over this period, the distribution appears<sup>37</sup> to remain less unequal than in many other of these countries. Only Sweden and Italy had a less dispersed distribution of earnings for men, and only Sweden had a less dispersed distribution for women. In Denmark and Norway, it is not possible to separate the figures for men and women, but the low ratios suggest that earnings inequality is less than in Australia or Italy, being particularly equal in Norway. The dispersion of earnings in the Netherlands and Belgium is similar to that in Australia. Earnings inequality is particularly marked in the United States and Canada, followed at some distance by the United Kingdom and France.

**Table 13:** Trends in earnings dispersion, OECD countries, 1975 to 1991

	1975	1981	1986	1991	% Change 1981–1991
<b>Australia</b>					
Males D9/D5	1.50	1.54	1.58	1.59	3.2
D1/D5	0.75	0.74	0.71	0.70	-5.4
D9/D1	2.00	2.08	2.23	2.27	9.1
Females D9/D5	1.37	1.44	1.48	1.49	3.5
D1/D5	0.77	0.78	0.77	0.75	-3.8
D9/D1	1.78	1.85	1.92	1.99	7.6
<b>Austria</b>					
Males D9/D5	-	1.62	1.65	1.65	1.9
D1/D5	-	0.62	0.61	0.60	-3.2
D9/D1	-	2.61	2.70	2.75	5.4
Females D9/D5	-	1.74	1.77	1.79	2.9
D1/D5	-	0.52	0.51	0.52	0.0
D9/D1	-	3.35	3.54	3.44	2.7
<b>Belgium</b>					
Males D8/D5	-	1.37	1.39	1.37	0.0
D1/D5	-	0.72	0.73	0.73	1.4
D8/D1	-	1.90	1.90	1.88	-1.1
Females D8/D5	-	1.31	1.32	1.32	0.8
D1/D5	-	0.73	0.77	0.73	0.0
D8/D1	-	1.79	1.71	1.81	1.1

**Table 13:** Trends in earnings dispersion, OECD countries, 1975 to 1991 *continued*

	1975	1981	1986	1991	% Change 1981-1991
<b>Canada</b>					
Males D9/D5	1.67	1.67	1.68	1.75	4.8
D1/D5	0.52	0.48	0.42	0.44	-8.3
D9/D1	3.21	3.47	4.00	3.98	14.7
Females D9/D5	1.70	1.76	1.76	1.75	-0.6
D1/D5	0.55	0.47	0.41	0.44	-6.4
D9/D1	3.09	3.74	4.29	3.98	6.4
<b>Denmark</b>					
Both D9/D5	-	1.53	1.55	1.57	2.6
sexes D1/D5	-	0.71	0.70	0.73	2.8
D9/D1	-	2.15	2.21	2.15	0.0
<b>France*</b>					
Males D9/D5	2.09	2.05	2.13	2.11	2.9
D1/D5	0.61	0.63	0.64	0.66	4.8
D9/D1	3.43	3.25	3.33	3.20	-1.5
Females D9/D5	1.77	1.70	1.70	1.69	-0.6
D1/D5	0.62	0.64	0.64	0.67	4.7
D9/D1	2.85	2.66	2.66	2.52	-5.3
<b>Germany</b>					
Males D9/D5	-	1.63	1.66	1.65	1.2
D1/D5	-	0.68	0.70	0.71	4.4
D9/D1	-	2.40	2.37	2.32	-3.3
Females D9/D5	-	1.56	1.62	1.58	1.3
D1/D5	-	0.59	0.64	0.66	11.9
D9/D1	-	2.64	2.53	2.39	-9.5
<b>Italy</b>					
Males D9/D5	-	1.50	1.51	1.56	4.0
D1/D5	-	0.70	0.73	0.75	7.1
D9/D1	-	2.14	2.07	2.08	-2.8
Females D9/D5	-	1.40	1.31	1.29	-7.9
D1/D5	-	0.59	0.58	0.64	8.5
D9/D1	-	2.37	2.26	2.02	-14.8
<b>Japan</b>					
Males D9/D5	-	1.63	1.67	1.73	6.1
D1/D5	-	0.63	0.61	0.61	-3.2
D9/D1	-	2.59	2.74	2.84	9.7
Females D9/D5	-	1.54	1.65	1.63	5.8
D1/D5	-	0.70	0.71	0.70	0.0
D9/D1	-	2.20	2.32	2.32	5.5

**Table 13:** Trends in earnings dispersion, OECD countries, 1975 to 1991 *continued*

	1975	1981	1986	1991	% Change 1981-1991
<b>Netherlands</b>					
Males D9/D5	1.53	1.66	1.63	1.65	-0.6
D1/D5	0.78	0.75	0.75	0.72	-4.0
D9/D1	1.96	2.21	2.17	2.29	3.6
Females D9/D5	1.43	1.50	1.43	1.48	-1.3
D1/D5	0.82	0.76	0.77	0.74	-2.6
D9/D1	1.74	1.97	1.86	2.00	1.5
<b>Norway</b>					
Both D9/D5	-	1.46	1.49	1.50	2.7
sexes D1/D5	-	0.71	0.69	0.76	7.0
D9/D1	-	2.06	2.16	1.97	-4.4
<b>Portugal</b>					
Both D9/D5	-	-	1.80	1.87	3.8
sexes D1/D5	-	-	0.70	0.71	1.4
D9/D1	-	-	2.57	2.63	2.3
<b>Sweden</b>					
Males D9/D5	1.57	1.68	1.49	1.57	-6.5
D1/D5	0.76	0.78	0.76	0.73	-6.4
D9/D1	2.07	2.15	1.96	2.15	0.0
Females D9/D5	1.40	1.37	1.37	1.40	2.2
D1/D5	0.75	0.81	0.75	0.77	-4.9
D9/D1	1.87	1.69	1.83	1.82	7.7
<b>United Kingdom</b>					
Males D9/D5	1.66	1.78	1.86	1.99	11.8
D1/D5	0.70	0.67	0.63	0.59	-11.9
D9/D5	2.37	2.66	2.95	3.37	26.7
Females D9/D5	1.72	1.78	1.82	1.93	8.4
D1/D5	0.68	0.68	0.66	0.62	-8.8
D9/D5	2.53	2.62	2.76	3.11	18.7
<b>United States</b>					
Males D9/D5	1.93	1.98	2.08	2.14	8.1
D1/D5	0.41	0.41	0.37	0.38	-7.3
D9/D1	4.71	4.82	5.62	5.63	16.8
Females D9/D5	1.97	2.01	2.12	2.15	7.0
D1/D5	0.47	0.50	0.45	0.44	-12.0
D9/D1	4.19	4.02	4.71	4.89	21.6

Source: OECD 1993, pp. 159-161

Table 14 shows estimates of the proportion of full-time workers with earnings less than half, two-thirds or 80 per cent of median earnings in the middle of the 1980s. The extent of low pay by any of these definitions is lower in Australia than in any of these other countries, except Belgium, and is the same as in the Netherlands. Again it could be expected that the Scandinavian countries would have had the lowest incidence of low pay.

**Table 14:** The incidence of low pay

	Source	Year	Percentage of full-time workers with earnings less than percentages of median earnings		
			< 50	< 66	< 80
Australia	LIS	1985-86	4	11	24
Belgium	CERC	1988	-	5	19
Canada	LIS	1987	13	22	33
France	CERC	1987	-	14	28
Germany	LIS	1984	10	18	29
	CERC	1986	6	13	25
Ireland	CERC	1987	10	18	30
Italy	CERC	1987	9	15	25
Netherlands	CERC	1988	5	11	24
Portugal	CERC	1985	5	12	31
Spain	CERC	1985	9	19	32
United Kingdom	CERC	1989	7	20	35
United States	USBC	1992	14	26	37

**Source:** OECD 1994, p.22.

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

In summary, the evidence from the Luxembourg Income Study and from OECD sources is consistent with the view that at least up until the early 1990s Australia had a relatively equal distribution of income from earnings. The distribution of earnings for full-time workers (both male and female) is more compressed than for most other OECD countries, with the notable exception of Scandinavia; there appears to be a lower incidence of low pay in Australia than in many other countries apart from Belgium and (probably) the Scandinavian countries. The most likely explanation for this finding is that Australia's centralised wage-fixing institutions in the 1980s continued to compress wage differentials.



## 6 Poverty and income inequality

### 6.1 Adequacy of payments

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

In assessing the impact of the system on trends in poverty, there are a number of conflicting considerations to bear in mind. On the one hand, levels of unemployment and of non-participation among men have increased substantially. These trends, together with the increase in the extent of sole parenthood,<sup>38</sup> are likely to have contributed to an increase in the extent of vulnerability to poverty among people of workforce age. These trends are also likely to be associated with significant changes in the composition of the low-income population. In the past, it was the retired elderly who were most likely to be in poverty, whereas now it appears to be lone parents and the unemployed.

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

In addition, the adequacy of basic income support payments has been very substantially increased over time (Table 15). For example, in 1996 the **real** level of the single adult rate of unemployment payments was 2.35 times its level in 1965, the real level of payment for a sole parent with one child was 1.6 times the 1965 level, the real level for a couple without children was 2.45 times the 1965 level, and the real level for a couple with two children was 2.56 times higher (2.83 times including rent assistance).

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

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

**Table 15:** Trends in the real value of social security payments for different family types, 1965 to 1997, \$ per year (\$ 1996–97)

Year	1965	1972	1976	1982	1983	1989	1996	1997
Unemployment allowance, no rent assistance								
Single	\$3,493	\$4,006	\$7,859	\$6,476	\$6,487	\$7,720	\$7,845	\$8,088
Couple, no children	\$6,033	\$6,524	\$13,079	\$13,248	\$13,224	\$13,782	\$14,793	\$14,998
Couple, one child	\$6,880	\$7,980	\$14,689	\$14,795	\$14,735	\$15,681	\$17,196	\$17,456
Couple, two children	\$7,939	\$9,680	\$16,403	\$16,332	\$16,371	\$18,167	\$20,330	\$20,653
Couple, three children	\$9,209	\$11,661	\$18,322	\$17,972	\$18,008	\$20,307	\$22,733	\$23,111
Couple, four children	\$10,479	\$13,717	\$20,293	\$19,610	\$19,647	\$22,889	\$26,063	\$26,506
Pension, no rent assistance								
Single, no children	\$5,032	\$5,556	\$7,859	\$7,947	\$7,932	\$8,269	\$8,867	\$8,991
Single, one child	\$7,572	\$8,968	\$10,704	\$10,411	\$10,265	\$10,978	\$12,084	\$12,362
Single, two children	\$8,631	\$10,668	\$12,418	\$12,133	\$11,979	\$13,464	\$15,218	\$15,559
Single, three children	\$9,901	\$12,649	\$14,337	\$14,138	\$13,932	\$15,604	\$17,621	\$18,017
Single, four children	\$11,171	\$14,705	\$16,308	\$16,144	\$15,885	\$18,186	\$20,951	\$21,412
Couple, no children	\$9,217	\$9,830	\$13,079	\$13,248	\$13,224	\$13,782	\$14,793	\$14,998
Couple, one child	\$10,064	\$11,293	\$14,689	\$14,795	\$14,735	\$15,681	\$17,196	\$17,456
Couple, two children	\$11,122	\$12,992	\$16,403	\$16,332	\$16,371	\$18,167	\$20,330	\$20,653
Couple, three children	\$12,392	\$14,973	\$18,322	\$17,972	\$18,008	\$20,307	\$22,733	\$23,111
Couple, four children	\$13,662	\$17,029	\$20,293	\$19,610	\$19,647	\$22,889	\$26,063	\$26,506
Unemployment allowance, with rent assistance								
Single	\$3,493	\$4,006	\$7,859	\$6,476	\$6,487	\$8,734	\$9,711	\$10,024
Couple, no children	\$6,033	\$6,524	\$13,079	\$13,248	\$13,224	\$14,796	\$14,997	\$16,825
Couple, one child	\$6,880	\$7,980	\$14,689	\$14,795	\$14,735	\$16,702	\$19,357	\$19,715
Couple, two children	\$7,939	\$9,680	\$16,403	\$16,332	\$16,371	\$19,188	\$22,497	\$22,912
Couple, three children	\$9,209	\$11,661	\$18,322	\$17,972	\$18,008	\$21,328	\$25,200	\$25,666
Couple, four children	\$10,479	\$13,717	\$20,293	\$19,610	\$19,647	\$23,911	\$28,535	\$29,061
Pension, with rent assistance								
Single, no children	\$5,455	\$6,206	\$8,888	\$8,652	\$8,891	\$9,282	\$10,735	\$10,927
Single, one child	\$7,996	\$10,086	\$11,733	\$11,114	\$11,219	\$11,999	\$14,236	\$14,621
Single, two children	\$9,054	\$11,786	\$13,447	\$12,836	\$12,933	\$14,485	\$17,376	\$17,818
Single, three children	\$10,324	\$13,767	\$15,366	\$14,842	\$14,887	\$16,626	\$20,079	\$20,572
Single, four children	\$11,594	\$15,823	\$17,337	\$16,848	\$16,840	\$19,208	\$23,414	\$23,967
Couple, no children	\$9,640	\$10,480	\$14,108	\$13,953	\$14,184	\$14,796	\$14,997	\$16,825
Couple, one child	\$10,487	\$11,943	\$15,718	\$15,501	\$15,694	\$16,702	\$19,357	\$19,715
Couple, two children	\$11,546	\$13,642	\$17,432	\$17,037	\$17,331	\$19,188	\$22,497	\$22,912
Couple, three children	\$12,816	\$15,623	\$19,351	\$18,677	\$18,968	\$21,328	\$25,200	\$25,666
Couple, four children	\$14,086	\$17,679	\$21,322	\$20,315	\$20,607	\$23,911	\$28,535	\$29,061

Source: Calculated from Moore and Whiteford, 1986 and personal calculations.

## 6.2 Trends in poverty and inequality

Despite the central importance of these issues, the problems of measurement are such that there is no consensus on the trend or level of inequality and poverty in Australia. This is shown in Tables 16 and 17. Some studies find rising inequality, while some find inequality to be stable or falling. The most notable point is that the trend in income inequality, whatever it might be, is not particularly strong, with many of the differences in the Gini coefficients unlikely to be statistically significant.

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

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

## 6.3 The Henderson and other poverty lines

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

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

Since the Poverty Inquiry Survey in 1973, HDIPC has grown in real terms by around 30 per cent, implying that the real level of living of someone just at the poverty line has risen by the same percentage over this period. This means that the statement that the 'poor have got poorer' when based on incomes compared to the Henderson line is not correct. In fact, the absolute living standards of those at the poverty line have risen. The real increases in social security rates noted above should also be remembered in this context.

**Table 16:** Results of studies of inequality in Australia

Study	Income Concept	Period	Data source	Main Results
Gregory 1993	Individual gross earnings, not equivalised	1976 to 1990	Weekly Earnings of Employees (WEED)	Growth in low paid and high paid jobs—the ‘disappearing middle’
Borland and Wilkins 1996	Individual gross earnings, not equivalised	1975 to 1994	WEED; Income Distribution Survey (IDS)	Real weekly earnings of males fell at 10th percentile and rose at 90th percentile.
Bradbury and Doyle 1992	Cash disposable income, equivalised	1983/84 to 1989/90	Microsimulation, IDS	Gini increased from .367 to .370
Saunders 1993	Cash disposable income, equivalised	1981/82 to 1989/90	IDS	Gini increased from .27 to .29
Harding 1994	Gross income, equivalised	1981/82 to 1989/90	IDS	No change in Gini
Whiteford 1994	Cash disposable income, equivalised	1982/83 to 1989/90	Microsimulation, IDS	Gini fell from .328 to .319
OECD 1995	Cash disposable income, equivalised	1981/82 to 1985/86	IDS	Gini increased from .287 to .295; P90/P10 fell from 4.05 to 4.01
Raskall and Urquhart 1994	Social wage income (health, schooling), equivalised	1982/83 to 1989/90	Microsimulation, IDS	Gini increased from .272 to .276
Harding 1995	Social wage income (health, education, housing, childcare), equivalised, after housing	1994	Microsimulation, IDS	Gini for cash disposable income of .308, for final income of .289
Johnson, Manning and Hellwig 1995	A. Cash disposable income, equivalised B. Social wage income (health, education, housing, childcare, concessions), equivalised	1981/82 to 1993/94	Microsimulation, HES	A. Gini fell from .308 to .296 B. Gini fell from .255 to .226
ABS 1996	Final income (social wage plus indirect taxes), not equivalised	1984 to 1993/94	Household Expenditure Survey (HES)	Q5/Q1 increased from 4.5 to 4.7
Gregory and Hunter 1995	Gross household income of areas, not equivalised	1976 to 1991	Census	Gini increased from .14 to .18; incomes fell for low income areas between 1976 and 1981 and rose for rich between 1981 and 1991

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

**Table 17:** Results of studies of poverty in Australia

Study	Poverty Measure	Period	Data source	Main Results
Saunders and Matheson (1991)	Henderson, HDIPC	1981/82 to 1989/90	Income Distribution Survey (IDS)	Poverty rate rose from 9.2 to 12.8%
Bradbury and Doyle (1992)	A. Henderson, CPI B. Henderson, average survey income	1983/84 to 1989/90	Microsimulation, IDS	A. Poverty rate fell from 11.3 to 9.4% B. Poverty rate rose from 11.3 to 11.4%
Saunders (1990)	A. Henderson, CPI B. Henderson, HDIPC	1982/83 to 1989/90	Microsimulation, IDS	A. Poverty fell from 8.9 to 6.5% B. Poverty rose from 8.9 to 11.6%
Saunders (1994)	Henderson, HDIPC	1981/82 to 1989/90	IDS	Poverty rose from 10.7 to 16.7%
King (1998)	Henderson, HDIPC	1972/73 to March 1996	Income survey and microsimulation	1. Very poor rose from 12.5 to 16.7% 2. Rather poor rose from 20.6 to 30.4 % 3. 'Extremely poor' fell from 3.9 to 3.3%
Harding and Mitchell (1992)	50% of median income	1981/82 to 1989/90	IDS	Poverty fell from 11.0 to 9.5%
Mitchell and Harding (1993)	60% of median income, poverty gap	1981/82 to 1989/90	IDS	Poverty gaps stable or falling slightly
Saunders and Matheson (1993)	50% of median income	1981/82 to 1989/90	IDS	Poverty rose from 9.3 to 9.4%
Harding (1995)	50% of median income, before and after the 'social wage'	1994	Microsimulation, IDS	Poverty substantially reduced by 'social wage' (from 12 to 4% for couples with children)
King and Landt (1996)	A. Henderson, all costs B. Henderson, after housing costs	1995	Microsimulation, IDS	A. Poverty at 11.8% B. Poverty at 9.2%
OECD (1996)	50% of median income	1981/82 to 1989/90	LIS, IDS	Poverty rose from 14.4 to 16.1%
OECD (1998)	50% of median income	1975 to 1994	HES	Poverty fell from 11.9 to 9.5 %

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

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

A further complication in assessing and interpreting estimates of this sort is that, for most categories of income support recipients, payments are above the equivalent of 50 per cent of median income, (although income support for youth is below this level). Thus, most of the people below 50 per cent of equivalised median income are not in receipt of income support payments (ABS 1998). Some of this group are self-employed, but others are possibly either between jobs or in waiting periods for benefits.

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

## 6.4 The benefit safety net

International comparisons of the generosity of benefits are fraught with difficulties. The most common form of comparison involves the use of replacement rates. Under this methodology, the levels of net benefits of defined types of individuals are compared with the disposable incomes of wage earners in similar family types. These sorts of comparisons tend to show

Australia as having very low levels of benefit generosity, precisely because Australia has flat-rate benefits without earnings related features. Thus, by European standards, the Australian pension replacement rate of 25 per cent of average earnings appears to be extraordinarily low.

Whiteford (1995) argues, however, that differing interpretations of the incidence of employer social security contributions can have a substantial impact on the measured generosity of cash benefits. When the purchasing power of basic benefits is compared rather than their replacement rates, the Australian system proves to be significantly more generous than the OECD average.<sup>39</sup>

Comparisons of income distribution are similarly affected. The United Nations Provisional Guidelines for Income Statistics (1977) advocate the inclusion of employers' contributions to social security schemes in the definition of wage and salary income. This is not commonly done in income surveys such as those held in the Luxembourg Income Study. Because employer contributions are not included in the standard analytical framework, the measured gap between those receiving social security benefits and those with earnings is artificially narrowed in countries such as France and Sweden (as well as other countries with high levels of employer social security contributions).

The most comprehensive data on the level of social assistance are provided by a recent study by Eardley, Bradshaw, Ditch, Gough and Whiteford (1996), which covers all OECD countries<sup>40</sup> at 1992. The level of assistance was compared by the use of both benefit replacement rates and benefit levels adjusted by purchasing power parities. The study compares benefit levels for single persons aged 17, 35 or 68 years, couples without children and either 35 or 68 years of age, couples with one child aged either 3 or 7 years, couples with two children aged 7 and 14 years, and lone parents with one child aged either 3 or 7 years. Benefit levels were compared both before and after housing costs (of public rented accommodation) and taking into account income taxes and social security contributions, health care costs and education expenses, and all relevant cash benefits.

Because of differences in the role of employer social security contributions, it has been argued that replacement rates—which compare benefit levels to wage rates—do not provide consistent measures of benefit generosity across countries (Whiteford 1995). The preferred methodology in this study therefore was based on comparisons using absolute benefit levels adjusted by purchasing power parities.<sup>41</sup> When benefit levels were averaged over all the household types noted,<sup>42</sup> Australian benefit levels were ranked eighth before housing costs and sixth after housing costs. Australian benefit levels were well above the OECD average, being 29 per cent higher than the mean before housing costs and 39 per cent above the mean after housing costs. Overall, Australian benefit levels were very similar to those in Sweden and the Netherlands, with most of the countries with higher benefit levels—Switzerland, Norway, Luxembourg and Canada—having substantially higher levels of national income.

Rankings varied by family types, however, with Australian benefit levels for couples with and without children being between the fourth and sixth highest in the OECD. For sole parents, the Australian rank slipped to 10th and 11th (depending on the age of the child). This poorer

ranking is consistent with the finding of higher relative poverty in Australia among this group. After Sweden, Australian benefits had the lowest implicit equivalence scale for sole parents of any OECD country. An Australian sole parent with one child received a disposable income that was 83 per cent of that of a couple without children. In 14 OECD countries, a sole parent with one child receives benefits that are higher than those for couples, and in four other countries the equivalence exceeds 90 per cent. Thus, this study suggests that, rather than being very low, the Australian safety net is set at a relatively high level, although less so for sole parents.

The study also allows comparisons of social assistance and social insurance benefits. When Australian benefits were compared to unemployment insurance and retirement pensions in other countries,<sup>43</sup> Australian benefits were 12 per cent below the OECD average before housing costs, but 6 per cent above the average after housing costs. These results reflect the substantial differences between social assistance and social insurance benefits in other countries. For example, in Austria, Belgium, France and Germany, social insurance recipients received around twice as much in benefits as social assistance recipients of the same household composition. Apart from Australia and New Zealand, only a few countries applied fairly uniform benefit levels across both systems. These included Denmark and Switzerland, and to a lesser extent Ireland and Norway.

Thus, in many other countries, there may be marked discrepancies between the standards of living of low-income groups, depending on the type of benefit received. This may also imply the reproduction of inequalities in the primary distribution of income into retirement, unemployment and invalidity. Under the Australian and New Zealand approach, for example, one would expect the compression of previous status inequalities, while in the continental European countries it could be expected that status inequalities would be maintained by the income support system.



## 7 Summing up the Australian model

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

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

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

Reforms over the past decade have focused on several areas:

- increased coverage and extensions to eligibility, for example, for families dependent on low wage employment and carers of elderly and disabled people;
- increased adequacy of payments through, for example, substantial increases in family payments and rent assistance and the regular indexation of virtually all payments to the Consumer Price Index (CPI);
- an increased emphasis on the targeting of payments to those in need;
- introduction of 'active society' measures (based on the concept that all people have the right to participate in society to the maximum extent possible) including the introduction in 1989 of the Jobs, Education and Training program for lone parents and the Newstart strategy for unemployed people, the Disability Reform Package in 1991 and measures included in the *Working Nation* White Paper, implemented in 1995, designed to increase work incentives among recipients of unemployment payments;
- designing payments in such a way as to provide families with more support in balancing workforce participation and child-rearing responsibilities.

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

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

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

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

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

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

A further issue with the targeted approach is that it may undercut public support for the welfare state. Higher income groups in Australia get less from the welfare state than in nearly any other OECD economy, and this trend has been heightened with the income-testing of family allowances, for example. It has been argued that this may cut into the political popularity of welfare, as middle and higher income individuals perceive themselves as paying taxes for benefits they do not receive. More universalist social provisions, such as health and education, therefore receive greater political support than targeted social security payments. In considering arguments of this sort, it is also necessary to consider the impact of the taxes used to finance social security and other forms of social protection.

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

## Appendix

### Government tax reform proposals—summary\*

The Government's reforms of the income tax system provide tax cuts across the board, with reductions in marginal tax rates for about 95 per cent of all taxpayers.

Table 18 shows the current income tax scale and the one that will take effect from 1 July 2000.

**Table 18:** Income tax scale

Current scale†		New scale	
Taxable income	Tax rate (%)	Taxable Income	Tax rate (%)
0-5,400	0	0-6,000	0
5,401-20,700	20	6,001-20,000	17
20,701-38,000	34	20,001-50,000	30
38,001-50,000	43		
50,001+	47	50,001-75,000	40
		75,001+	47

† In addition, the \$150 low income rebate applies to both the current and new scales.

The main features of the new tax scale are:

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

In order to assist families and individuals with the cost of private health insurance, a new 30 per cent tax rebate/benefit will be introduced from 1 January 1999. It will not be means tested and will be at a rate of 30 per cent of expenditure on private health insurance, including ancillary cover. The new tax rebate/benefit will be available in addition to the existing medical expenses rebate and can be received as a tax rebate or as a direct payment from the Government.

\* The information in this appendix represents the Government's proposals as at November 1998. This is an edited version of the Government's Tax Reform Proposals, downloaded from <http://www.taxreform.gov.au>.

## Assistance for families

To accompany the changes to the personal income tax system, the Government will introduce substantial reforms to the various forms of assistance provided to families through the income tax and social security systems.

These reforms will provide extra assistance to families in recognition of the extra costs involved in bringing up children and the sacrifices that families make. They boost the amount of the income tax cuts that families receive, substantially improve work incentives for low and middle income families and simplify the complex array of assistance provided currently to families.

Extra assistance is provided to families by extending the Family Tax Initiative (FTI), introduced by the Government in January 1997, at a cost of over \$2 billion in 2000-01.

The FTI currently provides an increase in the tax-free threshold of \$1,000 for each dependent child, plus an extra \$2,500 for single income families with a child aged under five years. From 1 July 2000, these thresholds will be doubled to \$2,000 and \$5,000 respectively. The effect of this is that all single income families (including sole parents) with a child under five years will have an effective tax-free threshold of \$13,000. This is made up of the new \$6,000 tax-free threshold plus \$2,000 for one dependent child and the further \$5,000 provided to single income families with young children. Overall, such families have a tax-free threshold that is more than double the general \$6,000 threshold.

For families, the doubling of the FTI means:

- an increase in assistance of \$140 a year (a 70 per cent increase) for each dependent child;
- an extra \$350 a year (a 70 per cent increase) for single income families with a child aged under five years.

**Table 19:** Family Tax Initiative will be increased in July 2000

Family type	Increase in assistance (\$/yr)	
	From July 2000	Including increase in January 1997
<b>Single-income family</b>		
one child under 5 years	490	1,190
two children, one under 5 years	630	1,530
two children, aged 5 years or more	280*	680*
three children, one under 5 years	770	1,870
three children, aged 5 years or more	420*	1,020*
<b>Dual-income family</b>		
one child	140	340
two children	280	680
three children	420	1,020

\* Single income families with a youngest child aged 5-16 years receive an extra \$61 a year from other elements of the families package.

Table 19 shows the increases in assistance for different types of families from July 2000 and the total increase in assistance that will have been provided since January 1997 when the Government introduced the FTI.

### *Improving incentives for families to work—including the unemployed*

The current system of assistance for families, particularly the overlap between the various income tests for benefits, results in disincentives for low and moderate income families to work. Many families face an effective marginal tax rate of 85.5 per cent or more if they increase their income.

To remove these overlaps and disincentives, the Government will, from July 2000, ease substantially the income test for Family Allowance by:

- increasing the level of income at which it begins to be income tested from \$24,350 a year (for one child) to \$28,200 a year;
- reducing the income test taper rate from 50 per cent to 30 per cent.

These measures provide substantial extra income to help lower income families raise their children and improves work incentives. They ensure that unemployed families will not incur a sudden drop in Family Allowance (and hence income) when they leave the income support system, improving incentives for them to obtain a full-time job.

At the same time, these measures, combined with the tax cuts, will ensure that low-income working families will have much better incentives to improve their circumstances. For example, their effective marginal tax rate will drop from 85.5 per cent to 61.5 per cent over a substantial range of income.

### *Simplifying the structure and delivery of Family Assistance*

Building on these increased levels of assistance and greater work incentives for families, the Government proposes to greatly simplify the structure of assistance for families, with effect from July 2000. Prior to implementation, the Government will consult with community organisations on the details of the new structure.

The new structure will reduce the types of assistance for families through the tax and social security systems from twelve to three. This is shown in Figure 28.

#### **Family Tax Benefit, Part A**

First, it is proposed that the four forms of assistance provided to help families with the costs of raising children will be merged into one benefit, the Family Tax Benefit, Part A (FTB(A)). This will:

- have the same rate structure as the programs it replaces (that is, maximum and minimum rates), but with the extra \$140 a year for each dependent child outlined above;
- use the relaxed income test for Family Allowance outlined above for the maximum benefit (that is, a threshold of \$28,200 a year and a 30 per cent taper rate);

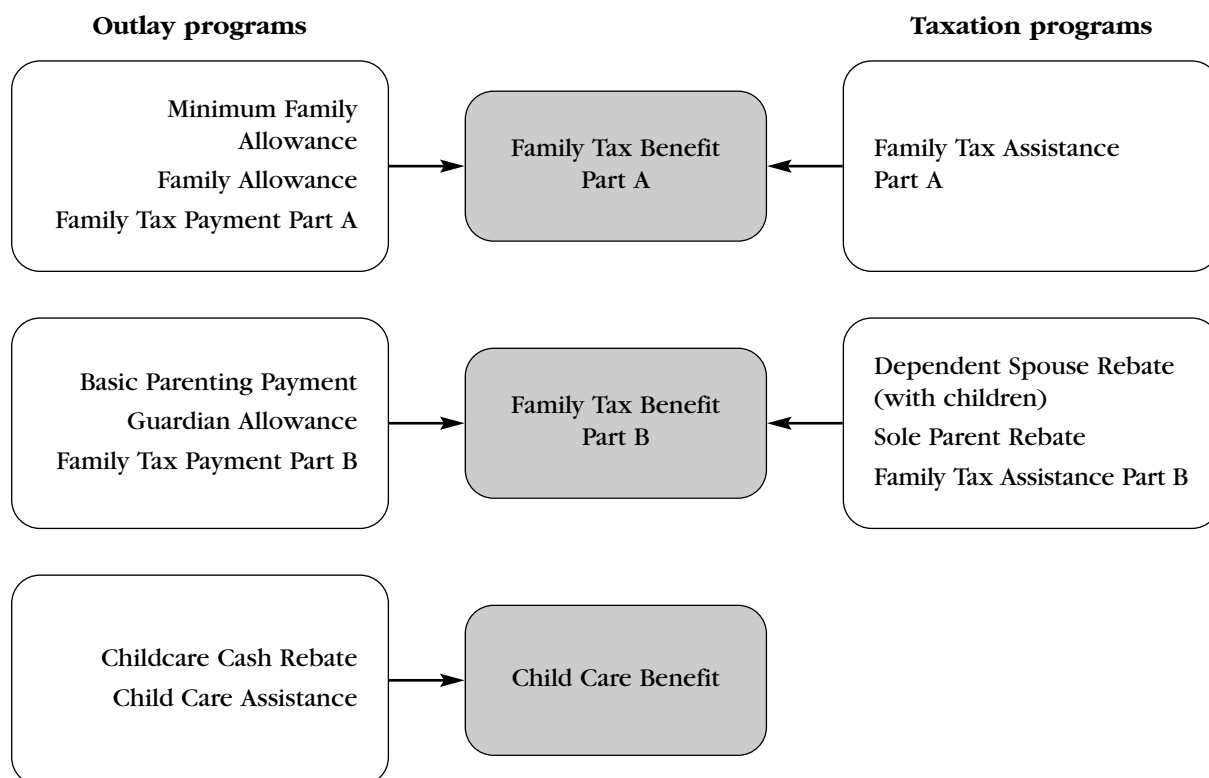
- replace the ‘sudden death’ income tests for minimum Family Allowance, Family Tax Payment (FTP) and Family Tax Assistance (FTA) with a single relaxed income test for the minimum FTB(A) of \$73,000 a year (plus \$3,000 a year for each child after the first) and a taper rate of 30 per cent;
- abolish the assets test that applies currently to Family Allowance and minimum Family Allowance;
- be increased annually in line with movements in the Consumer Price Index (CPI) in the same manner as applies currently for Family Allowance.

### Family Tax Benefit, Part B

Second, it is proposed that the six forms of assistance provided to single income families (including sole parents) will be merged into a Family Tax Benefit, Part B (FTB(B)). This will:

- have a similar rate structure to the current system (that is, with the level of assistance being higher where the youngest child is aged less than five years), but with
- the additional \$350 a year for single income families (including sole parents) with a child under five years outlined above;

**Figure 28:** Twelve family benefits simplified to three



- an additional \$61 a year, where the youngest child is aged 5–16 years, meaning that a single-income family with two children aged over five years receives an additional \$341 a year comprising \$280 as set out in Table 18 plus an additional \$61;
- for couples, replace three different income tests on the non-working partner's income with one test that has a free area of \$1,616 a year and a 30 per cent taper (thereby increasing the cut-out point for assistance from \$6,090 a year to \$10,500 for a family with a child aged under five years);
- this will greatly improve work incentives for primary carers (who are usually women);
- abolish the FTA/FTP income test on the working partner's (or lone parent's) income that applies currently from \$65,000 a year;
- be indexed annually in line with movements in the CPI in the same manner as applies currently to Family Allowance.

### **Child Care Benefit**

Third, it is proposed that the two forms of assistance available to help families with the costs of child care outside the home will be merged into one. The new benefit will greatly simplify government assistance for childcare costs, enabling families to receive all assistance with child care through the one program and under one set of rules. The Child Care Benefit will provide:

- maximum assistance (for 50 hours of work-related care per week) of \$116.40 a week per child in formal care, with an additional \$11 a week loading where there are two children in care and a \$32 a week loading for three or more children in care;
- for informal work-related care, the maximum level of assistance is \$20.10 a week per child in care (for 50 hours of care);
- a single income test, with a family income threshold of \$28,200 a year (for formal care) and taper rates of:
  - 10 per cent for one child in care;
  - 15 per cent and (above \$66,000) 25 per cent for two children in care;
  - 15 per cent and (above \$66,000) 35 per cent for three or more children in care;
- the income test will not apply for incomes above \$78,400 (one child in care). This will, in effect, maintain entitlements to assistance (equivalent to that available under the Childcare Cash Rebate at the 20 per cent rate) for higher income families.

Compared to the current system, the Child Care Benefit will provide an increase in the maximum level of assistance of \$7.50 a week. This will be of particular benefit to 200,000 lower income families, who receive the maximum level of assistance.



### **Delivery of family assistance**

The Government's reform of family assistance will also simplify and integrate the delivery of such assistance to Australian families.

Currently, the 12 forms of assistance for families outlined in Figure 28 are delivered through a combination of Centrelink, the Tax Office and the Health Insurance Commission. A new Family Assistance Office (FAO) will be set up within the Tax Office to deliver the new simplified set of family assistance programs. The FAO will be a joint venture between Centrelink and the Tax Office that will specialise in delivering assistance to families. It will enable families to deal with just one agency and one set of rules. The primary carer in the family (generally the mother) will have a choice as to how they wish to receive their assistance—either through regular fortnightly payments to their bank account, as reduced tax deductions from their (or their partner's) pay packet or as an end-of-year lump sum through the tax system.

### **Increasing pensions and benefits**

The Government will increase the adequacy of all social security and veterans' pensions and other income support payments and allowances, with effect from July 2000. The payments that will increase are listed below.

It is estimated that by 2001–02, the overall impact of the tax package will have added 1.9 per cent to the CPI, excluding new house prices (which will be compensated by a new First Home Owners' Scheme) and tobacco. But because not all of the indirect tax cuts commence in 2000–01, the CPI impact in that year is likely to be a little higher—perhaps as much as half a percentage point. The Government will provide from July 2000:

- a 4.0 per cent increase in the maximum rate of all income support payments provided to social security and veterans' pensioners, other social security recipients and students in receipt of Commonwealth income support, including additional payments and allowances such as Child Disability Allowance and Mobility Allowance;
- a 2.5 per cent increase in the income test free areas applied to social security, veterans' and student income support payments.

The Government will ensure that income support payments are 1.5 per cent higher than they would have been had the normal automatic indexation arrangements applied. This represents an estimated real increase of \$5.80 per fortnight in the maximum single rate pension and \$4.80 per fortnight for each of a married couple in July 2000. In addition, the Government will continue to ensure that the single rate of pension does not fall below 25 per cent of Male Total Average Weekly Earnings (MTAWE).

**Table 20: Commonwealth income support payments****Payments increasing**

The following government payments will increase as part of ensuring that all Australians benefit from the new tax system

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• Age pension	• Widow allowance
• Age service pension	• Maternity allowance (including maternity immunisation allowance)
• Disability support pension	• Double orphan pension and veterans' orphan pension
• Invalidity service pension	• Child disability allowance
• Wife pension	• Domiciliary nursing care benefit
• Partner service pension	• Mobility allowance
• Widow Class B pension	• Remote area allowance
• Carer payment	• Telephone allowance
• Carer service pension	• Veterans' allowances (attendant allowance, clothing allowance, decoration allowance, loss of earnings allowance, recreation transport allowance, temporary transport allowance and Victoria Cross allowance)
• Veterans' income support supplement and veterans' dependents pension	• Rent assistance
• Adequate means of support pension	• Austudy (all elements)
• Disability pension—general rate, intermediate rate, special rate (TPI and TTD) and extreme disablement adjustment	• Abstudy (all elements)
• War widow's/widower's pension	• Veterans' children education scheme
• Mature age allowance and mature age partner allowance	• Assistance for isolated children scheme (all elements)
• Sickness allowance	• Education entry payment
• Newstart allowance	• Employment entry payment
• Youth allowance	• Pharmaceutical allowance
• Partner allowance	• Pensioner education supplement
• Bereavement allowance	• New Enterprise Incentive Scheme
• Veterans' bereavement payment and Veterans' funeral benefit	• Drought relief payment
• Special benefit	
• Parenting payment	

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**Note:** Payments for families not included above will be increased as part of the family package.

## Easing the pension income test

The income test for pension payments will be eased, with effect from July 2000, by reducing the taper rate from 50 per cent to 40 per cent. This will assist all 845,000 part-rate pensioners by enabling them to keep an extra 10 cents of pension for every dollar of private income they receive above the income test free areas.

## **Introducing an Aged Persons Savings Bonus and Self-Funded Retirees Supplementary Bonus**

In addition, the Government will provide special payments to older Australians—pensioners and self-funded retirees—with income from savings. The Aged Persons Savings Bonus and Self-Funded Retirees Supplementary Bonus will help maintain the value of the savings and retirement income of older people. The maximum value of the Aged Persons Savings Bonus will be \$1,000 per person while the Self-Funded Retirees Supplementary Bonus will provide up to an additional \$2,000 per person to eligible people who are of age pension age but not in receipt of a social security or service pension. This additional amount will assist self-funded retirees who will not benefit from the increases in the maximum rates of age and service pensions. These bonuses (to be paid from July 2000) will:

- provide an untaxed Aged Persons Savings Bonus of up to \$1,000 to each resident aged 60 or more on 1 July 2000 with personal income from savings and investment (including superannuation pensions and annuities) and whose total income in 1998–99 or 1999–2000 is less than \$30,000;
- provide an untaxed Self-Funded Retirees Supplementary Bonus payment of up to \$2,000 to each eligible person of Age Pension age not in receipt of a social security or service pension;
- be calculated on the basis of \$1 of Bonus payable for each \$1 of income from savings and investments (including superannuation pensions and annuities) in 1998–99 or 1999–2000, up to the maximum amounts;
- be targeted to lower income groups with taxable incomes less than \$20,000 in 1998–99 (or 1999–2000), phasing out between \$20,000 and \$30,000 at a rate of 10 cents in the dollar on taxable income in excess of \$20,000 for the \$1,000 payment and 30 cents in the dollar for the combined \$3,000 payment.

## **Increasing tax rebates**

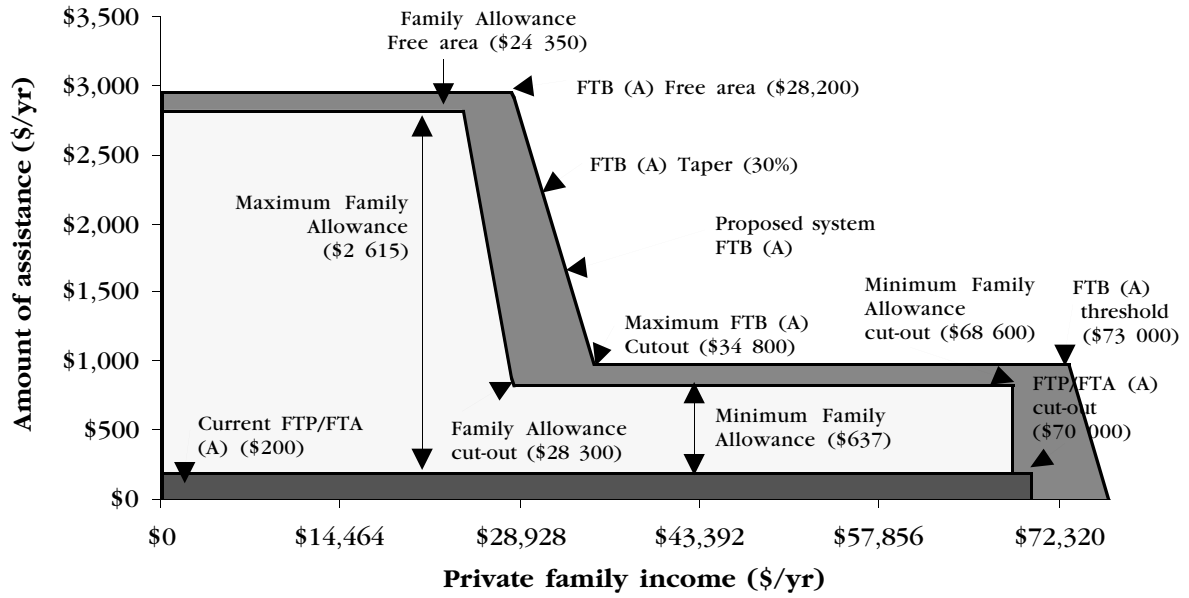
Further assistance will be provided by an increase in the maximum Pensioner Tax Rebate and the Tax Rebate for low-income aged persons of \$250 a year (for single people) and \$175 a year (for each of a couple), with effect from 1 July 2000.

**Table 21:** Proposed new structure for family assistance (projected July 2000 values)

## Family Tax Benefit, Part A

<b>CURRENT SYSTEM</b>		<b>NEW SYSTEM</b>	
<b>Four forms of assistance</b>		<b>One form of assistance</b>	
1. Family Allowance (FA)		1. Family Tax Benefit, Part A (FTB(A))	
2. Minimum Family Allowance (MFA)			
3. Family Tax Payment, Part A (FTP(A))			
4. Family Tax Assistance, Part A (FTA(A))			
<b>Four rates of assistance</b>		<b>Three rates of assistance</b>	
	\$/yr		\$/yr
1. Family Allowance: child aged 0-12 years	\$2,615	1. Maximum benefit: child aged 0-12 years	\$2,955
2. Family Allowance: child aged 13-15 years	\$3,402	2. Maximum benefit: child aged 13-15 years	\$3,742
3. Minimum Family Allowance	\$637	3. Minimum benefit	\$977
4. FTP(A)/FTA(A)	\$200	<i>Total increases of \$140 pa for each component</i>	
<b>Family income test on FA</b>		<b>Family income test: maximum FTB(A)</b>	
• Free area for one child	\$24,350	• Free area:	\$28,200
• Taper	50%	• Taper:	30%
<b>Family income test on Minimum Family Allowance and FTP(A)/FTA(A)</b>		<b>Family income test: minimum FTB(A)</b>	
• Minimum Family Allowance cut-out (add \$3,413 per child after the first)	\$68,600	• Threshold for one child: (add \$3,000 per additional child after the first)	\$73,000
• FTP(A)/FTA(A): cut out (add \$3,000 per child after the first)	\$70,000	• Taper:	30%
• Taper:	nil		

**Figure 29: Comparison of new and current systems (July 2000) Family Tax Benefit, Part A (one child aged under 13 years)**



**Table 22:** Proposed new structure for family assistance (projected July 2000 values)

## Family Tax Benefit, Part B

<b>CURRENT SYSTEM</b>		<b>NEW SYSTEM</b>	
<b>Six forms of assistance</b>		<b>One form of assistance</b>	
1. Dependent Spouse Rebate (DSR)		1. Family Tax Benefit, Part B (FTB(B))	
2. Basic Parenting Payment (BPP)			
3. Family Tax Payment, Part B (FTP(B))			
4. Family Tax Assistance, Part B (FTA(B))			
5. Sole Parent Rebate (SPR)			
6. Guardian Allowance (GA)			
<b>Ten rates of assistance</b>		<b>Two rates of assistance</b>	
<b>For single income couple families</b>			\$/yr
<i>Youngest child aged under 5 years</i>			
1. DSR and FTP(B)/FTA(B)	\$/yr	1. Child aged under 5 years	\$2,640
2. BPP and FTP(B)/FTA(B)	\$1,952	2. Child aged 5-16 years	\$1,851
<i>Youngest child aged 5-16 years</i>		<i>Total increases of \$350 pa (child aged under 5)</i>	
3. Dependent Spouse Rebate	\$1,452	<i>and \$61 pa (child aged 5-16)</i>	
4. Basic Parenting Payment	\$1,790		
<b>For sole parent families</b>			
<i>Youngest child aged under 5 years</i>			
5. GA and FTP(B)/FTA(B)	\$1,496		
6. SPR and FTP(B)/FTA(B)	\$1,770		
7. GA, SPR and FTP(B)/FTA(B)	\$2,766		
<i>Youngest child aged 5-16 years</i>			
8. Guardian Allowance	\$996		
9. Sole Parent Rebate	\$1,270		
10. GA and SPR	\$2,266		

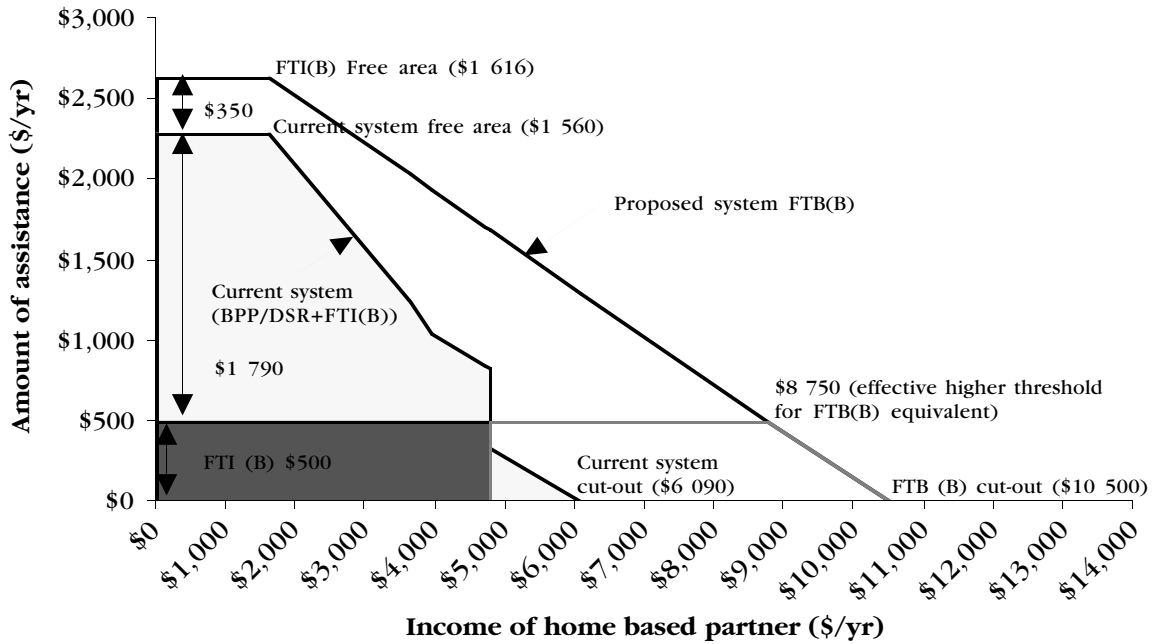
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**Table 22:** Proposed new structure for family assistance (projected July 2000 values)

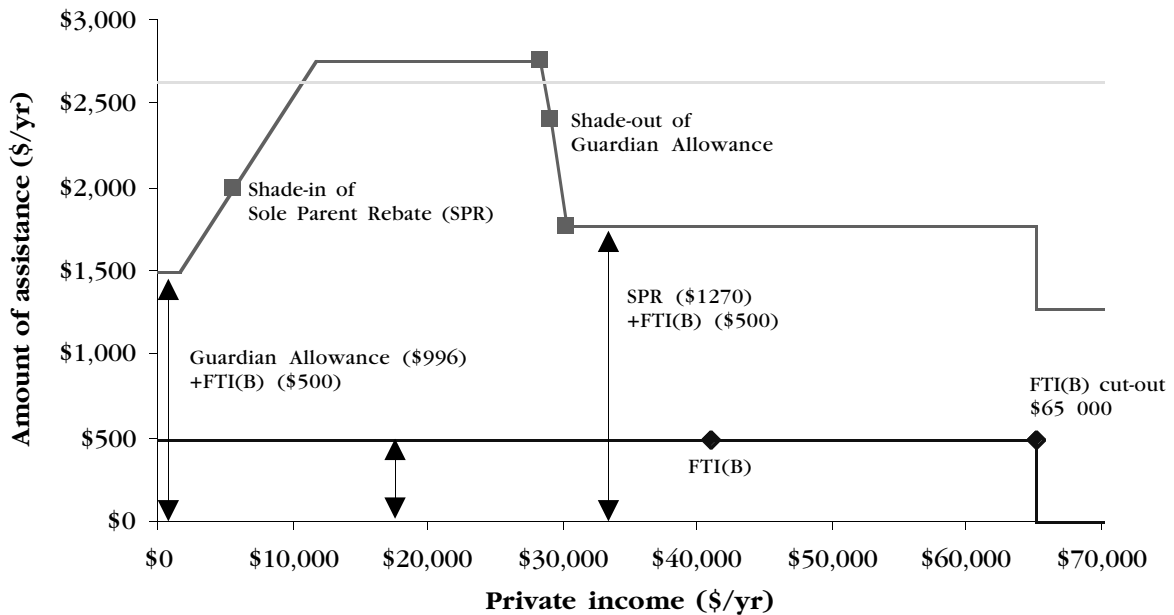
Family Tax Benefit, Part B (*continued*)

<b>CURRENT SYSTEM</b>		<b>NEW SYSTEM</b>	
<b>Income Test on DSR</b>	\$/yr	<b>Income Test on FTB(B)</b>	\$/yr
• primary earner:	no test	• primary earner:	no test
• spouse		• spouse (couple families only)	
— free area:	\$282	— free area:	\$1,616
— taper:	25%	— taper:	30%
<b>Income Test on BPP</b>		— cut out:	\$10,500
• primary earner:	no test	<b>Note:</b> Under the spousal income test for FTB (B),	
• spouse		entitlement to FTP (B)/FTA (B) of \$500 under the	
— free area:	\$1,560	FTI is, in effect, extended from \$4,777 a year of	
— tapers:	50/70%	spousal income to \$8,750 a year. Also instead of	
<b>Income Test on FTP(B)/FTA(B)</b>		the sudden death income test under the FTI at	
• primary earner:		\$4,777, entitlement to the FTB (B) tapers away at	
(add \$3,000 per additional child		30 cents in the dollar from \$8,750.	
after the first)	\$65,000		
• spouse			
— cut out:	\$4,777		
— taper:	nil		
<b>Income Test on Guardian Allowance</b>			
<b>(available to sole parent)</b>			
• same as for FA			
— free area:	\$24,350		
— taper:	50%		
<b>Income Test on Sole Parent Rebate</b>			
<b>(available to sole parent)</b>			
• no test			

**Figure 30: Comparison of new and current systems (July 2000)**  
 Family Tax Benefit, Part B (single income couple family, one child under 5 years)



**Figure 31: Comparison of new and current systems (July 2000)**  
 Family Tax Benefit, Part B (Sole parent with one child aged under 5)

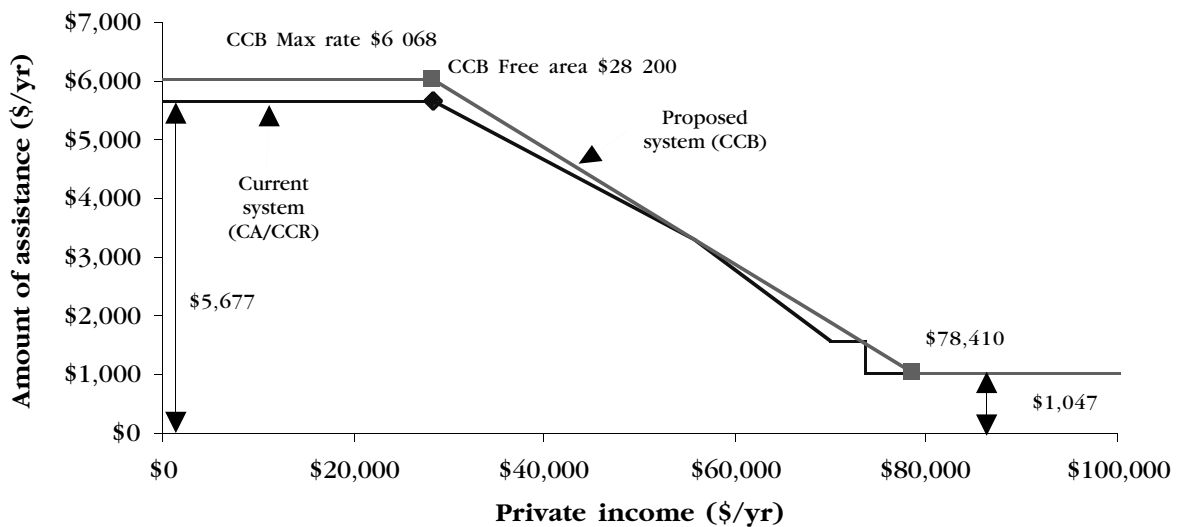




**Table 23:** Proposed new structure for family assistance (projected July 2000 values), Child Care Benefit

<b>CURRENT SYSTEM</b>		<b>NEW SYSTEM</b>	
<b>Two forms of assistance</b>		<b>One form of assistance</b>	
1. Child Care Assistance (CA)		1. Child Care Benefit (CCB)	
2. Child Care Cash Rebate (CCR)			
<b>Two rates of assistance</b>		<b>One rate of assistance</b>	
<i>(maximum rates of assistance for one child and 50 hours of formal, work-related care)</i>		<i>(maximum rates of assistance for one child and 50 hours of formal, work-related care)</i>	
	\$/yr		\$/yr
• Child Care Assistance		• CCB:	\$6,068
and	\$5,677		
• Child Care Cash Rebate	(combined)		
<b>Family Income Tests</b>		<b>Family Income Test</b>	
• CA (one child in care)		• Threshold:	\$28,200
— Threshold:	\$28,200	• Taper rate:	10%
— Taper rate:	12.25%	• Income test ceases at	\$78,400
• CCR			
— No income test, but assistance reduces from 30 per cent to 20 per cent of net allowable fees when income exceeds \$73,600 pa.			

**Figure 32:** Comparison of new and current systems (July 2000) Child Care Benefit: (1 child under 5 years, 50 hours of formal, work-related care a week)



## Endnotes

- 1 While protection from poverty is a primary objective of the Australian system, it is by no means the only goal of the system. The minimum rate of Family Allowance redistributes income across the life-cycle, in order to assist many middle income families with the extra costs associated with having children. Age pensions or similar payments are payable to roughly 80 per cent of the aged population, and for many of this group the pension is functionally equivalent to a form of self-insurance. Unemployment payments are of assistance to otherwise middle income individuals during limited periods without a job.
- 2 There is a relatively small additional allowance for social security recipients living in remote areas, and assistance with private rental costs is provided on a scaled basis above a rent threshold, so that assistance is higher for those in areas with higher housing costs.
- 3 The terms 'pension' and 'benefit' are defined in the *Social Security Act 1991*. The legal terminology for the classes is not reflected in the names of individual payments: some pensions have 'allowance' or 'payment' in their names, only one benefit is known by the name 'benefit' and one family payment is called a pension.
- 4 Very few recipients are directly affected by assets tests, which are primarily designed to exclude high wealth individuals with low cash incomes.
- 5 Disability Support Pension and Age Pension paid to people who are blind are not income or assets tested. Mobility Allowance, Double Orphan Pension and Child Disability Supplement are not income or assets tested.
- 6 The Commonwealth's revenue raising power was greatly expanded in 1942 as part of the war effort, with responsibility for income tax removed from the States, rates increased and the base broadened.
- 7 The threshold after which the 100 per cent withdrawal rate was applied was however very high, at various periods being equal to the basic pension rate.
- 8 It should be noted that significant proportions of Australians own their own home and this represents a substantial asset for many retirees. As at June 1995, 43 per cent of Australian households owned their own home and 27 per cent were purchasing. In March 1997, 69 per cent of age pensioners owned their own home.
- 9 Maintenance income is now only taken into account in reducing payments for children.
- 10 Note that where non-taxable family payments are withdrawn the marginal tax rates are additive, since a reduction in a non-taxable payment does not reduce the tax liability on earnings.
- 11 In the case of Australia, this effect is achieved because the top marginal income tax rate cuts in at comparatively low income levels, and the then family rebates were flat-rate. In France and Luxembourg, the lack of effect reflects the family quotient tax systems, which allow large tax deductions for children for high-income families.

- 12 The tax allowances for children were incorporated in the table earlier through the initial effects of the tax system. It should also be noted that the calculation of disposable incomes also takes account of entitlements to other means-tested programs, such as Medicaid, Food Stamps, and the then Aid to Families with Dependent Children.
- 13 In calculating social security spending, the figures for other countries have been adjusted to be directly comparable with Australia's. This has involved subtracting spending on civil servants' pensions and workers compensation, as Australian data for these items are not included in the standard OECD statistics.
- 14 This should be differentiated from the level of taxes paid by transfer recipients on their transfers plus their private incomes.
- 15 It should be noted that ultimately the total public and private cost of social protection in a country such as Australia may not be very different, since middle and upper income groups may be arranging for earnings replacement through private superannuation or other saving.
- 16 For a more detailed discussion, see Mitchell, Harding and Gruen (1994) and the comment by Whiteford (1997).
- 17 They also refer to slightly different years by 2 to 3 years, but this inaccuracy is unlikely to substantially affect the points made here.
- 18 Men aged 65 and over, women aged 60 and over. For clarity, the phased increase in women's age pension age has not been taken into account in this discussion.
- 19 Until 1994, partners of allowees were not paid individually.
- 20 It is very important to note that current statistics may exaggerate the duration of receipt of unemployment payments. For those with durations under 12 months, absences from benefit of up to six weeks are not treated as affecting durations; for those with durations of over 12 months, absences of up to 13 weeks are ignored.
- 21 These are calculated by comparing numbers of grants and the distribution of durations. They should be thought of as approximate estimates.
- 22 The department is currently in the process of building a longitudinal database for analysing such trends.
- 23 Note that this does not mean that women have 'taken' men's jobs. Male employment to population ratios fell most substantially in the late 1970s, when female employment remained stable. From the mid-1980s onwards, male and female employment to population ratios followed nearly identical cyclical trends, although female employment grew faster than male employment. The changing composition of the employed labour force is likely to be associated with the relative decline in manufacturing employment and the growth in service sector employment.
- 24 Note that all data quoted on labour market outcomes come from OECD sources, usually the annual *Employment Outlook* series, the historical labour market series, or the individual country studies. The charts are also derived from these sources.

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- 25 Since 1994, the EU has been expanded to include Austria, Norway and Sweden, but for the purposes of consistency over time the EU average is calculated excluding these three countries.
  - 26 Between 1979 and 1990, among the 20 OECD countries for which these data were available, Australia ranked fourth in terms of private sector job creation per person.
  - 27 After Luxembourg (28.5 per cent), Australia has the second highest share of foreign-born in the labour force (26 per cent) followed by Canada (22 per cent) and Switzerland (18 per cent). Most other countries had immigrant shares of between 3 and 10 per cent of the total labour force. For most of the 1980s, Australia had net migration rates more than twice as high as the next OECD country, excepting Germany, which had extremely high net migration in 1989. Ireland and New Zealand had quite strong outward migration over the 1980s.
  - 28 This raises the issue of whether Australian employment growth would have been as substantial in the absence of high levels of immigration and increased female labour force participation.
  - 29 It is notable that in 1973 Australia had one of the highest employment to population ratios for men of any OECD country. The sharp decline over the following decade moved Australia's ratio to about the OECD average.
  - 30 When unemployment rates are added to rates of non-participation in the labour force, a broadly similar picture emerges. A 1992 OECD study compared non-employment rates in the 1980s (OECD, 1992, p.47). For males aged 15 and over the level of non-employment in Australia was around 22 per cent compared to an OECD average of just under 24 per cent, with the highest level of non-employment being in Ireland, Italy and Spain at around 30 per cent and the lowest level being in Sweden at 16 per cent (with Japan and New Zealand also being under 20 per cent). This over-states non-employment in Australia, as the ratio included persons aged 65 and over in this country, but not in many others.
  - 31 'Married men' includes those in de facto relationships, as well as those with and without children.
  - 32 The figures for the United Kingdom are not actually given in the OECD publication, but come from 1993-94 *Households Below Average Income* statistics (UK 1994).
  - 33 It should be emphasised that, for married women not to be counted as unemployed in the labour force, surveys would require the additional step that they give up actively seeking work .
  - 34 Saunders and Fritzell (1995) find that for people of workforce age the difference in inequality between Australia and Sweden is largely explained by the much greater level of self-employment in Australia, and the more significant role of transfers in Sweden.
  - 35 Note that the figure for Belgium refers to the ratio of the 80th percentile point to the median, thereby understating wage inequality compared to the other countries included. Extrapolating from Austrian data that give both D9/D5 and D8/D5 figures for a number of years suggests that wage inequality in Belgium is broadly similar to that in Australia.

- 36 The United Kingdom figures used by the OECD come from the *New Earnings Survey*, which excludes low paid workers whose incomes are below the lower earnings limit for National Insurance contributions. A more detailed analysis of wage trends in the United Kingdom using *Family Expenditure Survey* data (Gosling, Machin and Meghir, 1994) finds that the real earnings at the 10th percentile of male workers did not increase at all between 1978 and 1993.
- 37 There remain major problems of comparability. The Italian data are actually net of tax. The Swedish data refer to workers aged 23 years and over. The Australian data exclude managerial workers. The Danish data exclude those with wage rates less than 80 per cent of the minimum wage. The data for the Netherlands refer to those aged 23 to 64 years, and for Norway those aged 19 to 55 years.
- 38 Increasing sole parenthood has meant that many women and children who were previously recipients of transfers within families now receive transfers through the social security system. To the extent that transfers within families were inadequate (and contributed to family breakdown), this process is one where poverty has always existed but is now made more visible.
- 39 Whiteford (1995) estimates that the standard rate of age pension for a single person in 1991 when adjusted using OECD purchasing power parities was higher than the comparable minimum benefits in 20 OECD countries, apart from Canada, Iceland, Luxembourg and the Netherlands.
- 40 The study was funded by the United Kingdom Department of Social Security, with additional support from the Social Policy Division of the OECD. Information was collected from relevant government departments in each country, as well as from academic experts. The information was collated and analysed at the University of York in the United Kingdom. Greece and Turkey do not have regular payments available under their social assistance schemes and Iceland has not yet responded to the survey, so these countries were not included in the comparisons.
- 41 Purchasing power parities (PPPs) are similar to exchange rates, but adjusted to take account of the costs of buying a standard basket of goods and services in each country. While they adjust for the relative costs of living in different countries, they do not take account of differing levels of national income.
- 42 Single 17 year olds were excluded from this overall ranking as only three countries (including Australia) provided benefits for this group.
- 43 The retirement pensions were assumed to be those received by people who had worked since the age of 21 years and earned national average earnings throughout their lives. Occupational pensions were not included unless they were compulsory and underwritten by the state. The adults of working age were assumed to be receiving the unemployment insurance payable on the basis of full contributions for someone who had been employed for national average earnings. In both cases, wives of recipients in couples were assumed never to have been in paid employment. Account was taken of any entitlements to income-related benefits.

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## Glossary

ABS	Australian Bureau of Statistics
AFDC	Aid to Families with Dependent Children
AIRC	Australian Industrial Relations Commission
APW	average production worker's wage
CCR	Childcare Cash Rebate
CPI	Consumer Price Index
CSA	Child Support Agency
CSHA	Commonwealth-State Housing Agreement
DHFS	Department of Health and Family Services
DSS	Department of Social Security
DVA	Department of Veterans' Affairs
EMTR	effective marginal tax rate
ETR	effective tax rate
EU	European Union
FA	Family Allowance
FAS	Family Allowance Supplement
GDP	Gross Domestic Product
HDIPC	household disposable income per capita
HES	Household Expenditure Survey
IDS	Income Distribution Survey
JET	Jobs, Education and Training Scheme
LIS	Luxembourg Income Study
MTAWE	Male Total Average Weekly Earnings
NGOs	non-government organisations
NSA	Newstart Allowance
NSW	New South Wales
OECD	Organisation for Economic Cooperation and Development
PgA	Parenting Allowance

PPPs	purchasing power parities
SGC	Superannuation Guarantee Charge
SPBs	Supporting Parent Beneficiaries
UK	United Kingdom
USA	United States of America
USBC	United States Bureau of the Census
VAT	value-added tax
WEED	weekly earnings of employees distribution