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## ROBERT MENZIES, MAX WALSH AND THE BABY BOOMERS

BY PETER SAUNDERS

**T**he ageing of the Australian population is posing a number of fundamental challenges for the development of social policy. According to a recent report from the Bureau of Immigration Research, the ratio of the number of people aged 65 and over to those of working age (15 to 64) is projected to rise from around 17 per cent currently to 26 percent by 2021 and to 32 per cent by 2031 (Borowski and Shu, 1992, Table 4.1).

### THE BABY BOOMERS

This trend partly reflects a cohort effect as the baby boom generation born after World War II reaches retirement. More significantly, it will result from structural changes, including increased longevity and declining fertility rates. While the former factor is clear and unlikely to be reversed, the forecast decline in fertility is somewhat more speculative. The downward trend is clear enough (although a slight reversal is apparent over the last few years) but this may be partly due to women postponing

child birth until later in life. If it is, then the decline in fertility will not be permanent, but subject to an 'echo effect' tending to return it to higher levels - even if still below those prevailing earlier.

Certainly, as the BIR report also shows, the decline in fertility has been much less for women in their thirties than for those in their twenties. This is not to suggest that population ageing will not occur, but rather to point to the possibility that projected fertility rates may prove to be on the low side. Recent research has indicated, for example, that birth rates are sensitive to the level of family benefits even though the effects are small. This offers an opportunity for social policies to influence longer-run demographic trends. It also illustrates the more general point that social policies should be seen not just as responding to external factors but as a force for shaping the context within which such factors operate.

### THE AGEING BOOMERS

Yet if nothing else changes, population ageing will put enormous pressure on the costs of providing income support and services for the aged. Most of these costs are currently met by government, which explains why senior government members have been focusing their attention on the issue. The rush is on to reduce some of these costs, and to shift others 'off budget' through a whole range of measures, including the pension assets test, encouragement of private superannuation, measures to improve service delivery efficiency and increased reliance on user

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charges for community services. Many of these moves do not, of course, reduce the costs of supporting the aged, but simply shift the burden away from the public purse onto the aged themselves or to those who help support and care for them.

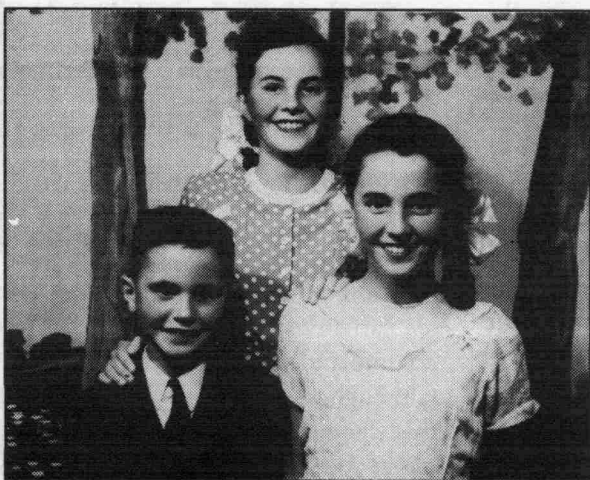
### MAX WALSH AND ROBERT MENZIES

When no less a respected economic commentator than Max Walsh devotes one of his regular columns to the issue,

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*The Baby Boomers: Who will pay the pension bill?*

matters are clearly serious.

In a recent article in the Sydney Morning Herald (8 May 1992) Walsh describes the failure of the Menzies government to 'set up a defined social security system where obligatory contributions from employers and employees

**The USA and Japan have already announced increases in pension age to be introduced next century as a way of reducing their pension bill.**

are earmarked for specific purposes' as 'the greatest failure of that period'. According to Walsh, the relative economic prosperity of the period represented a unique opportunity to introduce reform which will be far harder politically and more damaging economically in today's world of recession, high unemployment and public expenditure restraint. He goes on to describe how important earmarked social security contributions have become in other industrial nations, quoting the United States, Japan, Germany and France as examples.

Yet population ageing is causing at least as much consternation in these countries as in Australia and two of them (the US and Japan) have already announced increases in pension age to be introduced next century as a way of reducing their pension bill. How can this be, if they took advantage of opportunities missed in Australia?

The answer is, unfortunately, that Max Walsh seems to have misunderstood some of the basic economics associated with population ageing. Look at it this way. At any point in time, if we are to avoid either excessive unemployment or excessive inflation, total demand in the economy must absorb total production, or supply. Retired people no longer contribute to current production, but add to the demand on what is currently produced by workers. If that demand is not to lead to either inflation, or to an excess of imports over exports as a way of meeting the demand shortage, then

workers must be persuaded to reduce their claims on output by an amount equal to the total claims of retirees. This must be true whether support for the aged is financed through general revenue (as in Australia) or through earmarked social security contributions (as in most other OECD countries).

There is no obvious reason why switching from one system to the other will avoid this basic economic truth.

## **FINANCING THE FUTURE PENSION BILL**

What is true - at least on the basis of past experience - is that earmarked social security contributions tend to increase the willingness of people to contribute to the pension system. That is one reason



why the welfare bill in Australia is so low in international terms. Higher contributions mean higher pensions for more aged people and this occurs in other countries with no more complaint (possibly less) about the overall level of taxation than in Australia.

In theory, earmarked contributions provide a fund which can be channelled into productive investment, raising the longer-run growth rate. If that occurs, society as a whole will ultimately be richer and that will make us more able and willing to finance our future pension bill. The question here is whether pension fund contributions will lead to higher savings, or whether they will represent a diversion of savings which would have existed anyway. Evidence on this issue remains mixed and no definite answer is yet possible.

However, higher savings through the fund can finance increased investment, raise productivity, improve competitiveness and, in the longer term, raise the

living standards of workers and retirees. There is evidence that social security funds have been used in this way in several industrial countries, including Japan, Sweden and (perhaps less so) Canada. What is critical here is that the social security surplus is used for productive investment and not to offset deficits on other parts of the budget, as has been occurring in the United States in recent years. If this occurs, then higher private savings are offset by higher public consumption, with no net upward impact on the national savings rate.

## **SOCIAL SECURITY AND ECONOMIC GROWTH**

The possibility that social security funds can serve as a source of capital to finance economic development also explains the interest being shown in them by a number of developing countries in our region, including Indonesia, Malaysia, Singapore and Thailand. Different problems arise in practice in these countries, but the underlying idea is the same. Their problems have more to do with ensuring that funds are invested wisely, that members' benefits are protected and that the movement away from provident fund schemes (which generally pay lump-sum benefits only) towards the payment of annuities which will form the basis of a real retirement income system can occur.

**The possibility that social security funds can serve as a source of capital to finance economic development explains the interest being shown in them by a number of developing countries in our region.**

Most industrial countries which operate earmarked systems do not, in fact, accumulate reserves in a special fund (although some do). What happens is that these schemes tend to operate on a pay-as-you-go basis, like Australia, using current contributions to pay current pensions, keeping only a small contingency



reserve to meet unexpected developments (like a sudden rise in unemployment, for example).

## **SUPERANNUATION**

If this line of argument is correct, then not only is Max Walsh in error, but recent developments in Australia encouraging the expansion of private superannuation are also unlikely to ease the problems of financing population ageing unless national saving rises and the funds accumulated are invested wisely. Such developments may be justified on the grounds of providing more equitable access to superannuation-related tax concessions, but this will cause the cost of the concessions to rise as pension costs falls, doing little to reduce the overall income support bill.

If superannuation tax concessions are inequitable, this should be tackled directly not by allowing other workers (but not those outside the paid labour market) to join the gravy train.

Fears that such schemes will add to unemployment (a possibility alluded to by Max Walsh and by several others in the recent debate over the Superannuation Guarantee Levy) also seem to be exaggerated. Much of the research on this topic suggests that contributions are ultimately reflected in lower wages (a relation made explicit under current Accord arrangements as well as by ACTU members more recently) with no net overall impact on labour costs nor, it might be noted, on competitiveness.

The essential point about these schemes is thus that the funds they produce are

invested wisely so as to increase economic prosperity for everyone in the longer run. Can we be confident that the institutions entrusted with these funds will do so? This is the key question. Recent experience with the pension fund contributions of employees of the late Robert Maxwell suggests that it deserves to be given very careful scrutiny in this country. Otherwise, workers may be asked to make hard-won sacrifices now in order to receive the promise of future benefits which may turn out to be illusory.

## **REFERENCE**

Allan Borowski and Jing Shu (1992), *Australia's Population: Trends and Prospects 1991*. Bureau of Immigration Research, Canberra.

## **Seminar:**

# **International Theory and Practice of Privatisation**

## **JULY 24, 1992**

**Public Sector Research Centre and  
Social Policy Research Centre**

**Professor Bob Rowthorn, Cambridge University:**  
*Public Ownership and the Theory of the State*

**Johan Fritzell, University of Stockholm:** *Privatisation: The Swedish Experience*

**Professor Kathryn Denhardt, University of Central Florida:**  
*Ethics, Efficiency and Accountability: Privatisation Enters a New Era in the USA*

**Dr Peter Bottsman, Evatt Foundation:**  
*The American Health System - Lessons for Australia or Australian Lessons for America?*

**Dr Peter Saunders and Dr Michael Fine, SPRC, UNSW:**  
*Welfare Privatisation in Australia: The Case of Aged Care*

**Professor Tatsuo Kinugasa, Osaka University:**  
*Japanese Issues: Deregulation and Privatisation*

**Michael Johnson, PSRC, UNSW:**  
*Evaluating the Privatisation of the Water Industry in the UK*

**Dr Michael Williams, Victoria University of Wellington, NZ:**  
*The Political Economy of Privatisation in New Zealand*

**Location:** The Conference Room, 3rd Floor Samuels Building, Gate 11 Botany Street,  
University of New South Wales, Kensington, 2033

**Time:** 9.00 am- 5.00pm

**Cost:** \$80 which includes lunch, morning and afternoon tea.

**Registration and Information:** Contact Barbara Reen on (02) 697 3241 or Julia Martin on (02) 697 3857





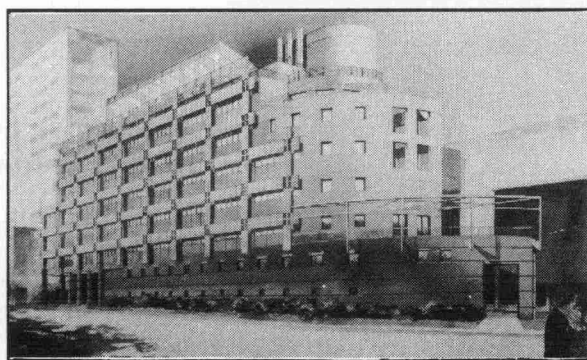


The Social Policy Research Centre (originally the Social Welfare Research Centre) was established in January 1980 under an agreement between the University of New South Wales and the Commonwealth Government.

The Centre is operated by the University as an independent unit of the University. The Director of the Centre is responsible to the Vice-Chancellor. The Director receives assistance in formulating the Centre's research agenda from a Board of Management, and in periodic consultation with the community.

The Centre undertakes and sponsors research on important aspects of social policy and social welfare; it arranges seminars and conferences, publishes the results of its research in reports, journal articles and books, and provides opportunities for postgraduate studies in social policy. Current research areas cover poverty, inequality, and standards of living; social security, taxation and the labour market; the welfare state; and community support services for the frail elderly and younger people with disabilities.

The views expressed in this Newsletter, as in any of the Centre's publications, do not represent any official position of the Centre. The Newsletter and all other SPRC publications present the views and research findings of the individual authors with the aim of promoting the development of ideas and discussion about major concerns in social policy and social welfare.



The Social Policy Research Centre is now located on Level Three of the University's New Research Building which can be found just inside Gate 11, off Botany Street, opposite the Australian Graduate School of Management and the University Parking Station.

## SPRC STAFF

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# FROM THE DIRECTOR

S O C I A L P O L I C Y R E S E A R C H C E N T R E

A good deal of publicity has accompanied the recent release of the SPRC report *Perceptions of Poverty, Income Adequacy and Living Standards in Australia*. As authors of the report, George Matheson and I have devoted considerable time and effort to ensuring that media coverage of our findings accurately reflected the material and findings in what is a long and complex research report. Unfortunately, it seems that our efforts were not always successful. Some of the media reporting of our research grossly distorted our results and the emphasis (and cautions) we attached to specific findings. At no place, for example, did we advocate cuts to the age pension and family allowances, as was claimed in one major report on our study. Those of you who wish to discover more about what we did, how we did it, and what we did (and didn't) conclude, are encouraged to buy the report and read it for yourselves. There are also a couple of shorter summaries of the main findings which we have written and can make available to anyone who is interested.

There are lessons to be learnt from the whole episode for us at the Centre. We are flattered at the media interest in our work and indeed now attempt to court it. Yet when the outcome is so far removed from what we actually found or said, one can but wonder whether the whole exercise is worth the effort which underlies it. There is a fine line to be drawn between the enormous potential advantages offered by access to a broad audience through the media - an audience which we would probably not otherwise be reaching - and the dangers associated with the distortions which sometimes occur along the way.

As researchers, we no doubt have a lot to learn about how to present our work in a way which is comprehensible to a broad audience. But the electronic media also has a responsibility to foster community understanding that some issues are complex and cannot be squeezed into the standard 'ten second take' which they seem to favour in much of their reporting.

## CONFERENCES

Elsewhere in this Newsletter advertisements appear for two major forthcoming Conferences with which the Centre is involved. The main themes of the two Conferences - Privatisation and Inequality - could hardly be more topical. Both will feature several key overseas speakers, which will allow an international perspective to be given to Australian developments. The Privatisation Conference is our first formal joint venture with the Public Sector Research Centre at the University, while the Inequality Conference has been organised with the Centre for Applied Economic Research as part of our broader collaborative Study of Social and Economic Inequalities. Both Conferences will take place in the Centre's new Conference Room; places will be limited, so enrol soon if you want to ensure a place!

## VISITORS

The Minister for Social Security, Dr Neal Blewett, and the Opposition Spokesperson on Social Security, David Connolly, each visited the Centre in June. Both were impressed with our new accommodation and each showed a lively and perceptive interest in our research program. The recession has made their respective roles all the more significant and both acknowledged that difficult times are ahead. While that is undoubtedly true, it would be a pity if social security was seen as merely serving a role of 'picking up the pieces' of those whose lives have been shattered by unemployment - not that either Dr. Blewett or Mr. Connolly took such a view. We have moved a long way towards a more active role for social security in recent years and now is the ultimate

test of the success of moves designed to help reintegrate those without work back into the labour market. There is a need to hold firm on this, in order that the unemployed are not left in oblivion but given opportunities and hope that their current plight will be only temporary.

## STAFF

I am delighted to welcome two new Research Fellows to the Centre. Both come with considerable experience in research and policy assessment and implementation which will further strengthen our ability to undertake practical and policy relevant social research.

■ Megan Mitchell joined the Centre in May, on leave for one year from the Department of Health, Housing and Community Services (DHHCS). She will be working with Sara Graham on an **Evaluation of the Individual Needs Analysis Pilot Projects** funded by DHHCS.

■ Dr. Judy Cashmore joined the Centre in June to work on a part-time basis with Sheila Shaver on the project **Longitudinal Study of State Wards Leaving Care**.

■ Julia Martin, our new Publications and Information Officer, also started in May. Some of you will already have had contact with her and others will no doubt do so in the future. This is a key position in the Centre, serving as our immediate point of contact with the outside community - the ultimate funders of what we do and (hopefully) the ultimate beneficiaries of our research. Julia has already settled in well to the job with a quiet calm and efficiency which augurs well for the future.

■ Gloria Gervasoni commenced duties as my Secretary in April; this is another key position in terms of our contact with the outside community. She too has settled in well and I wish her, Megan, Judy and Julia an enjoyable and productive association with the Centre.

Peter Saunders  
Director

# FROM THE PROJECTS

S O C I A L P O L I C Y R E S E A R C H C E N T R E

## Wardship and Federal-State Relations

BY MARINA PAXMAN

**W**idespread community concern has been expressed in recent years about the number of young people living without the stability and support provided by parents. This concern was made clear in the report by the Human Rights and Equal Opportunity Commission in 1989, *Our Homeless Children* ('The Burdekin Report'), which indicted all levels of government for failures in policy and administration.

The SPRC recently completed a study of the changing relationship between Commonwealth and State programs and services for young people both in care and leaving care. The Commonwealth Department of Social Security commissioned the report conducted by Sheila Shaver and Marina Paxman.

The study extends and updates Taylor's 1990 report, *Leaving Care and Homelessness*, which outlines changes taking place in State legislation and practice

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in the application of State guardianship provisions.

State guardianship is increasingly viewed as a limited term arrangement, and children are leaving care before they are 18 years of age, and at increasingly younger ages. There are clear gaps in accommodation, living skills training, emotional support, advisory services and education and training for young people leaving care.

Wardship entails all the obligations of parenthood, and no other response is

fully comparable in the range or cost of care. Its reduction suggests a growing reluctance by the States to stand *in loco parentis* except as a last resort. By conservative estimates, there are some 20 000-25 000 homeless young people, including a minimum of 8 500 between 12 and 15 years of age (HREOC, 1989: 67). The Burdekin Report and other evidence indicate that a significant number of these young people are or have been wards of state.

### STATE AND FEDERAL RESPONSIBILITY

Both tradition and the Australian Constitution assign responsibility for child welfare to State Governments. This is especially clear in the case of children who have been made wards of state. The Commonwealth has responsibilities for the support of families and young people.

In recent years, developments in Commonwealth income support and other funding programs, such as shelter and emergency assistance, have brought Commonwealth assistance closer to the child welfare responsibilities of State Governments. This has been accompanied by changes in the scope of State child welfare policies, giving rise to areas of 'push-me-pull-you' interaction. This has the potential to create gaps in the provision of support and assistance to young people.

### WARDSHIP AS STIGMA, WARDSHIP AS RIGHT

The researchers undertook detailed case studies of services to wards of state in Queensland and South Australia. The two case studies contrast the ways in which child welfare policy is interpreted. Queensland provided an example of what Taylor (1990) called 'wardship as stigma' and South Australia of 'wardship

as a right'. While their legal philosophies differ, there were similarities in the reduced use of legal orders for care, protection and control in both States.

Evidence suggests that State authorities are coming to treat the age of 16 as an exit point for wards of state from care. While most States have significant numbers continuing on orders after their sixteenth birthday, very few young people seem to be admitted to wardship after that age and very large numbers discharged. Few States and Territories have established programs to assist young people in the transition from care to return to the family or to establish themselves in independent living.

An extended Commonwealth role in the funding of Aboriginal and Islander Child Care Agencies raises different issues. Whilst the Commonwealth has no Constitutional role in child welfare, it does have a more general mandate with respect to Aboriginal well-being. The continued over-representation of Aboriginal and Islander children in care is a key issue in that mandate.

Two fundamental yet unresolved issues underlie Commonwealth-State interactions in child and adolescent welfare in Australia. These concern the definition of 'child' and 'adult' status, and the meaning of new orders sharing responsibilities for guardianship and control between parents and the State. The approaches to these issues operating now are likely to be less satisfactory in the future.

A report entitled *Homelessness, Wardship and Commonwealth-State Relations* is to be published in the SPRC Reports and Proceedings Series in the near future.

### REFERENCES

- Taylor, J. (1990), *Leaving Care and Homelessness*, Brotherhood of Saint Laurence.  
Burdekin, B. (1989), *Our Homeless Children*, Human Rights and Equal Opportunity Commission.



# Disability among the Future Aged

BY MOHAN SINGH

SPRC research has projected the numbers of aged people with disabilities as the population ages over the next four decades, from 1991 to 2031. As might be expected, the numbers of people with disabilities will rise as the population ages and there are increasing numbers in the age groups where disabilities are more common. The research shows that the number of males aged 45 years and with disabilities will rise from 886 200 in 1991 to 1 120 800 in 2001 and 2 066 200 in 2031, while the number of females of the same age-group with disabilities will rise from 916 500 in 1991 to 1 150 500 in 2001 and 2 148 700 in 2031.

These increases in the numbers of people with disabilities will vary for various age groups. For example the numbers of men and women aged 45-59 having disabilities will increase until the year 2021 and thereafter will decrease in 2031 (see figure). Unlike the persons aged 45-59, the number of disabled among people aged 60-79 will increase slowly during the projection period of 1991-2011 and then will record greater increase. Furthermore, while the numbers of men and women with disabilities in all the age groups above 60 years will increase, there will be greater increase for the older persons in the later projection years.

The World Health Organization defines disability in the context of health experience and suggests that a disability is any restriction or lack (resulting from an impairment) of ability to perform an activity in the manner or within the range considered normal for a human being.

These projections are based on the assumption that rates of disability will remain at their 1988 levels. This is an optimistic assumption based on the possibility that health promotion targets designed to improve disability-free survival with improving mortality rates will be fully achieved. This is an ambitious policy goal, given that disability among aged Australians has increased considerably during the period 1981-1988. During this period the life expectancy at age 65 increased by 0.9 years, but the disability-free life expectancy decreased by 1.4 years (McCallum, 1990).

As in other Western countries, the above findings raise a timely alarm for policy makers, signalling the need for policies to cope with the demands of the

future aged and disabled population. Given the seriousness of the problem, Rogers et al. (1989) cautioned that governments should prepare themselves to deal with the ageing and associated disability about 20 years in advance.

These findings represent only one of a series of projections being undertaken by the SPRC as part of the project *Projections of the Socio-Economic Characteristics of the Future Aged*. These projections are built on four sets of demographic projections representing four distinct demographic scenarios. Results based on other demographic projections will present different pictures about the sizes of disabled populations in the future. Thus far it is evident that even with a

moderate demographic scenario and optimistic future disability rates the number of aged Australians with various disability conditions will substantially increase, with the greatest increase in the oldest age groups. The numbers of aged people with disability in the future will obviously be much greater under the conditions of high disability rates, a pessimistic but likely outcome of extending longevity of life, and high growth of population.

## REFERENCES

McCallum, J. (1990), 'Health: The quality of survival in older age', in Australian Institute of Health, *Australia's Health 1990*, Australian Government Publishing Service, Canberra.

Rogers, R.G., A. Rogers and A. Belanger (1990), 'Active life among the elderly in the United States: multistate life-table estimates and population projections', *The Milbank Quarterly*, 67, 3-4.

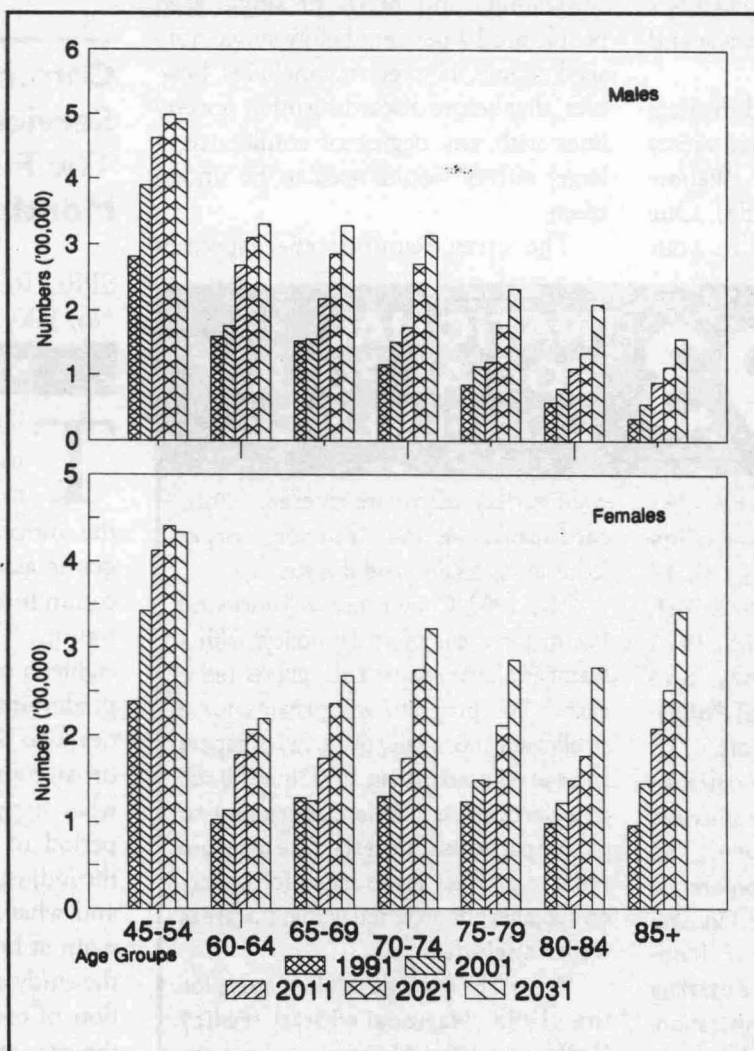


Figure: Projected Numbers of Disabled Persons in Australia, 1991-2031

# NEW PUBLICATIONS

S O C I A L P O L I C Y R E S E A R C H C E N T R E

## Perceptions of Poverty, Income Adequacy and Living Standards in Australia

SPRC Reports and Proceedings No.99

PETER SAUNDERS &  
GEORGE MATHESON

This report takes what is known as the consensual approach to poverty measurement and applies it to Australian survey data to produce a set of poverty lines based on public perceptions of the income levels required in order to make ends meet. Whilst explaining the consensual approach to poverty measurement, the report also addresses issues relating to income adequacy and the social meaning of income.

Dr Elim Papadakis collected the data in the course of his Centre-funded survey *Attitudes to State and Private Welfare* (Reports and Proceedings No.88). One of the questions asked was 'In your

opinion, what is the very lowest income you would need to make ends meet?'

The resulting poverty lines are shown to differ markedly from the Henderson Poverty Line approach and also from the level and structure of social security payments. The authors found that the overall poverty rate in Australia in 1988 was 20.5 per cent, and that the risk of poverty is greatest among sole parent families and single elderly people. They also found that the poverty line for a couple with four children is only 21.5 per cent higher than for a non-aged childless couple and only 35.2 per cent above that of a non-aged single adult. Other results showed that the needs of non-aged couples are only 11 per cent above the needs of single non-aged adults and needs of single aged people are 17 per cent below single non-aged people. The report concludes, however, that before discarding other poverty lines with any degree of confidence, a larger survey would need to be undertaken.

The survey examined other aspects of

the respondents' lives, such as the incidence and frequency of periods of financial stress and also the influences on their self-assessed income needs. Regarding the latter, several socio-economic characteristics relating to family structure, income, education level, housing circumstances and political affiliation are shown to correlate with reported minimum income levels. As real disposable incomes increase, perceptions of their adequacy may actually decrease.

This report indicates that people's social context affects their assessment of the level of resources necessary to make ends meet. There is a need for narrowly focused economic analysis to be broadened to take account of this context.

## Community Support Services and Their Users: The First Eighteen Months.

SPRC Reports and Proceedings  
No. 100

MICHAEL FINE

The major objective of this exploratory, longitudinal study is to provide a critical appraisal of the introduction of policies and programs associated with the principle of community care in an Australian community. The Report describes the first eighteen months of a field study of sixty predominantly aged people with disabilities who live in their own homes in an urban community. The study documents what happens to these people over a period of three years, examining how they adjust as their circumstances change and what assistance they require to remain at home. In a second component the study also looks closely at the operation of community support services in the area and the major forms of public assistance available to these people.

 1993

## NATIONAL SOCIAL POLICY CONFERENCE

Make a note in your calendar. The 1993 National Social Policy Conference will be held on July 14-16 at the University of New South Wales. The theme for the 1993 Conference is to be **Theory and Practice in Australian Social Policy: Rethinking the Fundamentals**.

In planning for the next conference we have been reflecting on the perhaps excessive success of our last one. The 1991 National Social Policy Conference saw some 130 papers presented in nine parallel sessions. Feedback from participants suggested that such a dazzling array of choice caused a deal of frustration.

There was comment too about the

wide variety of papers offered. Many participants felt the need for sharper focus in discussion and debate.

The 1993 Conference will focus on five major areas of social policy, with a featured plenary paper to be presented in each. The program will provide for a smaller and more selective array of papers to be presented than in 1991, but will still give participants ample opportunity to pursue particular interests. The program will also provide some scope for papers on subjects not included within the areas we have selected.

We will be issuing a call for papers for the 1993 National Social Policy Conference later this year.



It examines three questions: the needs of these people and to what extent these needs are being met; the relative significance of formal and informal support by examining who provides assistance of different types and how the various sources of support interact; and, the relationship between community support and other provisions such as nursing homes and hostels.

The report is an account of work in progress which describes the approach taken in conducting the research as well as drawing attention to some of the initial findings. It was found that, after eighteen months, a surprisingly high proportion of people had been admitted to nursing homes. Those who remained at home relied mainly on the efforts of informal caregivers or on their own resources. A survey of service providers in the area found little evidence of co-ordination, and there was considerable concern about the ability to meet the demand for assistance.

## Measuring the Cost of Children

SPRC Discussion Paper No. 32

**BRUCE BRADBURY**

A key element of government income support policies is the setting of payments to reflect the variations in needs of families of different compositions. This report examines several methods for using household expenditure data to estimate the needs of families with children compared to those without.

Data from the 1988-89 Household Expenditure Survey conducted by the Australian Bureau of Statistics are used to estimate these relative costs using the identifying assumptions of the Engel, ELES and Adult Goods models. It is concluded that the Adult Goods or generalised translation model has the greatest theoretical validity, though it also has substantial data requirements. Suggestions are made for further research and data collection strategies.

# PUBLICATIONS ORDER FORM

**New SPRC Publications.** The following SPRC publications are now available:

## SPRC REPORTS AND PROCEEDINGS

No.99 Peter Saunders and George Matheson, **Perceptions of Poverty, Income Adequacy and Living Standards in Australia**, April 1992, 113pp. \$9 RP99

No. 100 Michael Fine, **Community Support Services and Their Users: The First Eighteen Months**, May 1992, \$9 RP100

## DISCUSSION PAPER

No. 32 Bruce Bradbury, **Measuring the Cost of Children**, May 1992, 34pp. Free. DP32

## AUSTRALIAN JOURNAL ON AGEING

Volume 11, No.2, Australian Council on the Ageing, May 1992, 52pp. \$10 AJA11/2

## DIARY OF SOCIAL LEGISLATION AND POLICY

1991 Diary of Social Legislation and Policy (National Institute of Economic and Industry Research, Australian Institute of Family Studies, and Social Policy Research Centre) 1992, \$9 DSL91

## STUDY OF SOCIAL AND ECONOMIC INEQUALITIES

Volume 1: Government and Redistribution, July 1992, 156 pp. \$9 SSE1/1

Volume 2: Some Factors Causing Inequality, July 1992, 131 pp. \$9 SSE1/2

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# BOOK REVIEW

S O C I A L P O L I C Y R E S E A R C H C E N T R E

## Income Transfers in Ten Welfare States

DEBORAH MITCHELL

Avebury, Aldershot, 1991, 237 pp.  
£30.00 Hardback.

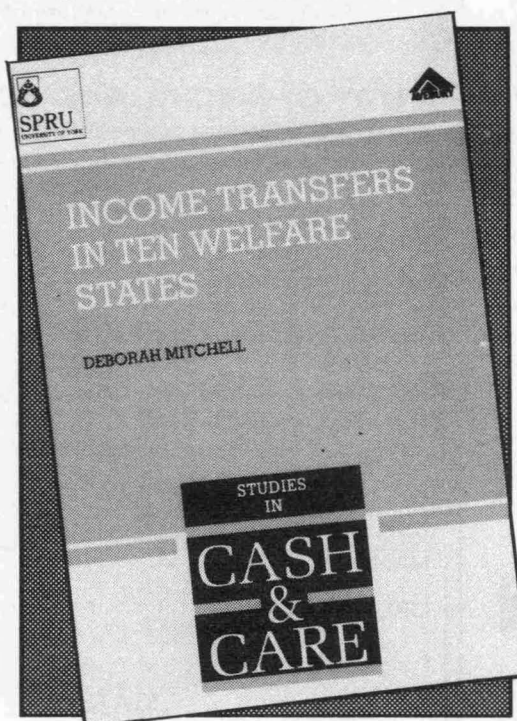
Reviewed by Sheila Shaver

Don't let the dry title of this book put you off, for it has important things to say about how well the income support systems of advanced industrial countries do their job in preventing poverty and redistributing income. The book is of particular interest to Australians, because it allows us to compare the performance of our highly targeted social security system with those based on the principles of universalism and social insurance. (See the article by Peter Saunders beginning on page 1).

Mitchell's research forms part of the new generation of comparative studies of income, social security and the welfare state made possible by the Luxembourg Income Study (LIS) Project (Smeeding, O'Higgins and Rainwater, 1990). Comparative research has taken on new importance as welfare spending has come under challenge and national administrations have moved to cut back and reshape the welfare state. The comparative approach has been applied to questions as diverse as relative inequality, the political origins of welfare state development and the relation between social spending and economic growth.

Until recently, research of this kind was limited by the lack of comparable data for a range of countries. Within the last decade, however, researchers with the LIS Project have constructed an international data set of high quality that uses standardised definitions. Mitchell uses data from the 'first wave' of the LIS

Project, covering ten countries in about 1980. The countries included are Australia, Canada, France, (West) Germany, the Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States.



Even at this early stage, the LIS data have allowed some new answers to old questions and the asking of new ones. Mitchell's analysis of the LIS data is concerned with the following questions:

- how do the income support systems of advanced industrial nations compare in their effectiveness in alleviating poverty and reducing income inequality?
- how do they compare in the efficient use of taxpayers' resources?
- what is the relative contribution of transfer payments and taxation to the redistribution of income?
- do effectiveness and efficiency go together, or must some of one be sacrificed for the sake of the other?

I shall be concerned here only with

measures concerning poverty. Mitchell assesses the effectiveness of income support payments by making a 'head count' of the numbers of 'families' (a concept similar to the Australian income unit) below a poverty line (several of these are used) and the size of the 'poverty gap', i.e. the amount of expenditure required to bring a family up to the poverty line.

Head counts of the number of families who remain in poverty after income support do not provide a good measure of the comparative effectiveness of social security systems. This is because the measure is so sensitive to the precise poverty line used, a slightly different poverty line would give a greatly different result.

A better measure is the extent to which income support results in a reduction of the poverty gap. On this basis, the most effective income security systems are those of the United Kingdom, Sweden and Germany, and the least effective those of Canada and the United States. Australia, along with the Netherlands, ranks in the middle.

Mitchell defines efficiency by measuring the extent to which social security expenditure is targeted on families who would otherwise be poor, and by the extent to which payments 'spillover' to raise their recipients above the poverty line. It has long been argued that income support systems which use income tests to target expenditure on the poor, such as those of Australia and the United States, are more efficient than those making universal payments, such as Sweden and Norway.

Mitchell's analysis raises fundamental doubts about this argument. While Australian income security does indeed appear to be highly efficient, this seems to be an exception to the general tendency for universal and social insurance systems to be more efficient than means-tested systems. France, Norway and Germany achieve much the same level of targeting without the pervasive use of means testing characteristic of Australian income security. The United Kingdom and Canada target least efficiently.

Income-tested systems achieve greater efficiency than universal systems in the extent to which they limit payments to the amount necessary to bring recipients up to the poverty line, minimising spillover of benefits to the non-poor. Countries having elements of income-testing in their programs, primarily Australia, the United States, the United Kingdom and Canada, have the lowest levels of spillover, and systems without means-testing, such as Sweden and the Netherlands, the highest. Spillover, however, also depends on the level of benefit, for the meaner the level of payment the lower is the risk that it gives recipients more than they need to reach the poverty line. Mitchell reports that many of the countries having low spillover of benefits to the non-poor also have low levels of social security expenditure per capita.

When the two measures of efficiency are combined, countries with elements of income-testing in their income support systems do appear to be more efficient in reducing poverty than those who do not. Australian income security is unambiguously the most efficient of the ten included in the study, followed by the US and Canada. Least efficient are Sweden and the Netherlands.

The picture changes, however, when the effects of income taxation are brought into the analysis. In some countries, notably Sweden and the Netherlands, generous 'universal' benefits are clawed back from high income groups through taxes. When efficiency in concentrating benefits on the poor is measured after taxation Australia continues to top the rankings, but Norway, the Netherlands and Sweden follow closely behind. The progressiveness of the tax structure is clearly an important aspect of the universal model. After taxation, spillover is the

only aspect of efficiency clearly associated with income testing, and in this dimension Mitchell's analysis questions the common view that income-tested social security systems are more efficient than other systems in targeting the poor.

Mitchell's Australian data refer to 1981-82, when means testing was significantly less comprehensive than it is now. The age pension was then universal for persons aged 70 and above, as was the family allowance. While other countries have increased their use of means testing in the decade since, none have made it so central to the income security system as Australia.

Finally, Mitchell looks at the connection between the effectiveness and the efficiency of income support systems. From one perspective, it has been argued that effectiveness may only be achieved at some cost to efficiency, the hypothesis being that political support for public expenditure requires some spread of benefits to middle income groups. From the other, it has also been suggested that efficiency is often achieved through low benefit levels ('efficiency through meanness').

Mitchell finds evidence that there is indeed some trade-off between effectiveness and efficiency. Countries such as Sweden and Germany, whose

social security systems achieve high levels of poverty reduction, are less closely targeted on the poor and have higher spillover levels than countries such as Australia, Canada and the United States. However this relation is a weak one, and it is also true that the same level of effectiveness may be achieved with greatly varying efficiency.

The implications of this book for us in Australia are somewhat paradoxical. It shows Australian income security as the most efficient of the ten national systems included in the study. At the same time, however, it also shows that our reliance on the use of income-testing is not the only route to efficiency. Other countries achieve almost the same level of efficiency by other means, most notably through a combination of universal benefits and progressive income taxation. Thus at one time the study both confirms the virtues of Australia's internationally unusual policy choice and gives grounds for re-opening the debate about the costs of that choice in the problems inherent in a means-tested welfare system.

## REFERENCE

Smeeding, T. M., M. O'Higgins and L. Rainwater, eds (1990), *Poverty, Inequality and Income Distribution in Comparative Perspective*, Harvester Wheatsheaf, New York.

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# Study of Social and Economic Inequalities

# CONFERENCE

## Income Distribution, Living Standards and the Economy

- 8.45 - 9.15      *Registration*
- 9.15 - 9.30      *Introduction*                      *Dr Peter Saunders (Social Policy Research Centre)*
- 9.30 - 11.00      **RECENT TRENDS IN INCOME INEQUALITY**  
*'Accounting for Changes in Income Inequality in the United Kingdom, 1971- 1986'*  
   *Professor Stephen Jenkins (University College of Swansea)*  
*'Trends in the Distribution and Redistribution of Income in Australia: King Canute in a Pin-striped Suit?'*  
   *Phil Raskall (Social Policy Research Centre)*
- 11.00- 11.30      *Morning Tea*
- 11.30- 1.00      **LIVING STANDARDS AND INEQUALITY**  
*'Social Democracy and Social Equality: The Level of Living in Sweden'*  
   *Dr Johan Fritzell (Swedish Institute for Social Research)*  
*'Family Needs: Preliminary Findings for an Outer Suburban Area of Melbourne'*  
   *Dr Peter McDonald (Australian Institute of Family Studies)*
- 1.00- 2.00      *Lunch*
- 2.00- 3.30      **INEQUALITY AND THE ECONOMY**  
*'The Economy, the Environment and Equality'*  
   *Dr Peter Kriesler (University of New South Wales)*  
*'Poverty, Inequality and Recession'*  
   *Dr Peter Saunders and Bruce Bradbury*  
   *(Social Policy Research Centre)*
- 3.30- 4.00      *Afternoon Tea*
- 4.00 - 5.00      *Where to From Here? General Discussion*  
                                 *Open Forum to be led by Peter Saunders and Phil Raskall*

### Venue

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\$80 including lunch and morning and  
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