Selectivity and Targeting in Income Support: The Australian Experience

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Publication details:
Working Paper No. 17
SPRC Discussion Paper
0731693353 (ISBN)
1447-8978 (ISSN)

Publication Date:
1990

DOI:
https://doi.org/10.26190/unswworks/155

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Russell Ross
Editor
SELECTIVITY AND TARGETING IN INCOME SUPPORT:
THE AUSTRALIAN EXPERIENCE

Peter Saunders

An earlier version of this paper forms part of a longer study of social security in Australia written in conjunction with my colleagues Bruce Bradbury and Peter Whiteford (Saunders, Bradbury and Whiteford, 1989). I would like to acknowledge the comments of both and the research assistance of David Kerr and George Matheson. None of these are responsible for the views expressed in the paper.
ABSTRACT

The Australian income support system is often characterised as one of the most selective in the Western industrialised world. This paper examines the sense in which the Australian system is selective, and discusses the distinction between selectivity and targeting in income support provisions. The paper contrasts developments in social security outlays and recipient numbers over the last two decades with those occurring since the election of the Hawke Government in 1983 in order that the nature and impact of recent policies introduced to increase targeting can be identified. The statistical analysis indicates that increases in recipient numbers have been the dominant factor underlying the past growth in outlays, and illustrates how the targeting strategy employed in recent years has been primarily directed at restraining the growth in recipient numbers. In many areas, moves to increase income support targeting have not been accompanied by more highly selective provisions. Finally, a method is devised to measure the degree of selectivity in income support programs, and applied to developments over the 1969-89 period in age pensions, family assistance and sole parent's pensions.
1. INTRODUCTION

The Australian income support system has traditionally been described as one of the most selective in the Western industrialised world. Income support is provided on a flat rate basis, funded from general revenue, and virtually all payments are subject to means tests of various kinds. The apparent flexibility that such a system provides to governments in situations of limited resources and expenditure restraint is often regarded with envy by countries where social insurance arrangements appear to offer less scope for policy adjustments in the short run. The tendency for the size of social security transfer outlays relative to GDP to be lower in countries who rely more heavily on selective provisions also suggests that increasing selectivity and targeting of assistance may be a rational and desirable strategy for meeting strict fiscal constraints. Irrespective of the merits of this view, there can be little doubt that interest in achieving greater income support selectivity and targeting has increased in many countries. For this reason alone, an investigation into the Australian experience with income support targeting is of general interest.

The economic difficulties confronting Australia throughout the eighties - primarily associated with the deterioration in the balance of payments and escalating external debt - have had major consequences for the growth of government expenditure in general and for social security expenditure in particular. Since the election of the Hawke Government in 1983, Commonwealth Government spending has fallen by over four percentage points of GDP to its lowest level since 1973-74, while the social security and welfare budget has also declined relative to GDP. In part, the slowdown in income support outlay growth has been a consequence of economic developments, most significantly a growth in employment that has been impressive by international standards. This impact has, however, been reinforced by a large number of policy reforms directed specifically at restraining social security outlay growth. Many of these have been implemented as part of a general strategy designed to improve the targeting of income support payments. The paper explores the meaning of the concept of income support targeting, and the nature of its relationship with income support selectivity. Attention is directed to examining the alternative methods used in Australia to influence the degree of targeting and assessing their impact on the degree of selectivity of the income support system.

The paper is organised as follows: Section 2 summarises the broad trends in income support outlays in Australia in the last twenty years and examines the main factors behind the growth in outlays. In Section 3, the concept of income support targeting is
explored and its relationship with selectivity and other income support concepts is investigated. Section 4 discusses the range of policies pursued under the Hawke Government, specifically in the period since 1986, in order to achieve a more targeted system. In Section 5, a method is developed to quantify the degree of selectivity in income support and used to analyse changes since the late sixties. Finally, the main conclusions of the paper are summarised in Section 6.

2. SOCIAL SECURITY DEVELOPMENTS IN AUSTRALIA: A STATISTICAL OVERVIEW

A natural starting point for an analysis of social security policies, is to investigate how government outlays on social security have evolved, and to look behind those trends to the factors and policies that have influenced that growth. Analysis is restricted to the main income support programs administered by the Commonwealth Department of Social Security (DSS). Outlays on these programs by no means constitutes all of what is included under the Commonwealth budget functional classification Social Security and Welfare, which also encompasses a wide range of welfare service programs including aged persons homes and hostels, the disability services program, child care and aboriginal advancement programs. In 1987-88, total DSS outlays on cash benefits amounted to $17.4 billion, or just over 77 per cent of total budget outlays on social security and welfare of $22.6 billion. The scope of the paper is further restricted by focusing on the following major DSS income support programs; age pension, invalid pension, widow's pension, supporting parent's benefit, unemployment benefit, sickness benefit, special benefit, family allowance and family allowance supplement. Together, outlays on these programs amounted to $17.3 million in 1987-88, or over 99 per cent of total DSS cash benefit outlays.

Trends in Outlays and Recipient Numbers

Even given the restricted scope described above, DSS cash benefit outlays are very large in absolute terms, as well as relative to total Commonwealth budget outlays. In 1987-88, the $17.4 billion outlay total corresponds to 22.1 per cent of total Commonwealth budget outlays, more than Commonwealth outlays on education and health combined, and well over twice the total defence budget. Trends in aggregate outlays (whether expressed in real terms or relative to total budget outlays) cannot be used as an indicator of the degree of government commitment to social security objectives. Cash benefit outlays are the outcome of a nexus of interrelated factors including the performance of the economy, demographic trends and individual choices, as well as the parameters of income support.
policies. To attribute outlay trends solely to the latter without taking account of these
other factors is overly simplistic and misleading.

Table 1 summarises social security cash benefit outlays for selected years since 1968-69. These trends provide an indication of the extent to which the nature of the social
security system has changed over the period. The two forms of income support that
were easily the most significant in 1968-69 - the age pension and family assistance -
grew much more slowly over the subsequent two decades than the remaining programs,
which are primarily directed to those of workforce age. The longer-run decline in
economic performance partly explains the growth in cash benefit outlays for those of
working age. As a consequence, outlays on the age pension and family assistance
decreased as a proportion of total income support outlays from 85.7 per cent in 1968-69 to
52.3 per cent by 1988-89.

The increase in program outlays depends both on the growth in benefit levels and the
increase in recipient numbers. Information on the growth in program recipient numbers
is provided in Table 2. What is most striking about the trends shown in Table 2 is the
great disparity across different programs, ranging from 3.4 per cent annual growth in the
number of age pensioners to an average annual growth of 17.3 per cent in the numbers
receiving unemployment benefit. But the absolute growth in recipient numbers has also
been very substantial. Even in the case of age pensions, where recipient number growth
has been lowest, the 3.4 per cent a year average growth implies close to a doubling of
recipient numbers when compounded over a twenty year period. At the other extreme,
the 17.3 per cent annual growth in the numbers on unemployment benefit implies an
increase by more than twenty-four fold over two decades (albeit from a very low initial
level).

The data presented in Tables 1 and 2 are, wherever possible, consistent with that used by the
Department of Finance in its recent Report on the Forward Estimates of Budget Outlays
(Department of Finance, 1988). In some instances, these data have been supplemented by data from
the Annual Reports of the Department of Social Security. The author would like to express his
gratitude to both Departments for making unpublished data available.

See Saunders (1987a; 1987b) and Saunders, Bradbury and Whiteford (1989) for more detail.

The data in this Table do not include recipients of family assistance, because many families receive
more than one payment implying that trends in aggregate recipient numbers have little meaning.
TABLE 1: TRENDS IN SOCIAL SECURITY INCOME SUPPORT OUTLAYS,
1968-69 TO 1988-89
($ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Age Pension</th>
<th>Invalid Pension</th>
<th>Sole Parent's Pension</th>
<th>Unemployment Benefit</th>
<th>Special Benefit</th>
<th>Sickness Benefit</th>
<th>Family Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968-69</td>
<td>447.0</td>
<td>81.6</td>
<td>45.2</td>
<td>9.3</td>
<td>2.0</td>
<td>5.5</td>
<td>381.2</td>
</tr>
<tr>
<td>1972-73</td>
<td>887.8</td>
<td>184.7</td>
<td>102.6</td>
<td>46.6</td>
<td>4.4</td>
<td>26.6</td>
<td>522.1</td>
</tr>
<tr>
<td>1976-77</td>
<td>2517.1</td>
<td>511.0</td>
<td>416.4</td>
<td>618.1</td>
<td>21.9</td>
<td>105.4</td>
<td>1023.9</td>
</tr>
<tr>
<td>1980-81</td>
<td>3935.8</td>
<td>880.8</td>
<td>908.8</td>
<td>995.7</td>
<td>70.0</td>
<td>174.5</td>
<td>950.4</td>
</tr>
<tr>
<td>1984-85</td>
<td>5638.9</td>
<td>1469.8</td>
<td>1632.3</td>
<td>2983.6</td>
<td>100.3</td>
<td>364.6</td>
<td>1545.9</td>
</tr>
<tr>
<td>1988-89</td>
<td>7516.1</td>
<td>2415.6</td>
<td>2132.3</td>
<td>3135.6c</td>
<td>178.3c</td>
<td>553.0</td>
<td>1714.9</td>
</tr>
</tbody>
</table>

Average Annual Growth Rate: 14.8 18.5 21.3 33.8 25.2 25.9 7.8

Notes:  

a) Sole parent's pension includes outlays on class A widow's pension and supporting parent's benefit.

b) Family assistance includes outlays on child endowment/family allowance, family income supplement, family allowance supplement and an estimate for the years 1968-69 and 1972-73 of the cost to revenue of tax deductions for dependent children.

c) Includes relevant outlays on job search allowance.

Sources: See Footnote 1.
TABLE 2: TRENDS IN SOCIAL SECURITY INCOME SUPPORT RECIPIENT NUMBERS, 1968-69 TO 1988-89

(Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Age Pension</th>
<th>Invalid Pension</th>
<th>Sole Parent’s Pension</th>
<th>Unemployment Benefit</th>
<th>Special Benefit</th>
<th>Sickness Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968-69</td>
<td>699.4</td>
<td>132.2</td>
<td>37.0</td>
<td>17.8</td>
<td>4.3</td>
<td>8.4</td>
</tr>
<tr>
<td>1972-73</td>
<td>895.3</td>
<td>163.3</td>
<td>53.9</td>
<td>39.6</td>
<td>4.1</td>
<td>16.2</td>
</tr>
<tr>
<td>1976-77</td>
<td>1209.6</td>
<td>233.2</td>
<td>121.8</td>
<td>216.9</td>
<td>8.2</td>
<td>32.4</td>
</tr>
<tr>
<td>1980-81</td>
<td>1364.7</td>
<td>284.2</td>
<td>178.0</td>
<td>310.0e</td>
<td>20.4e</td>
<td>44.5e</td>
</tr>
<tr>
<td>1984-85</td>
<td>1369.0</td>
<td>321.4</td>
<td>240.6</td>
<td>581.7</td>
<td>18.5</td>
<td>62.4</td>
</tr>
<tr>
<td>1988-89</td>
<td>1361.8</td>
<td>395.5</td>
<td>239.1</td>
<td>429.0d</td>
<td>23.9d</td>
<td>77.0</td>
</tr>
</tbody>
</table>

Average Growth Rate: 3.4 5.6 9.8 17.3 9.0 11.7

Notes:

a) Pension numbers (including those on supporting parent’s benefit) are the averages of successive 30 June figures. Beneficiary numbers are the average number of recipients for each week during the year.
b) Family assistance numbers are not reported as some families receive more than one payment.
c) See note (a), Table 1.
d) Includes relevant numbers in receipt of job search allowance.
e) Estimate.

Sources: As for Table 1, plus Budget Statements, 1989-90, Budget Paper No.1.
TABLE 3: COMPARISON OF TRENDS IN REAL OUTLAYS AND RECIPIENT NUMBERS SINCE 1968-69 AND SINCE 1982-83a

(Annual Average Percentage Changes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Pension</td>
<td>5.9</td>
<td>0.5</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-0.5</td>
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<td></td>
<td></td>
<td></td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Invalid Pension</td>
<td>9.6</td>
<td>7.6</td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.2</td>
</tr>
<tr>
<td>Sole Parent's Pension</td>
<td>12.4</td>
<td>2.7</td>
<td>9.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Unemployment Benefit</td>
<td>24.9</td>
<td>-1.3</td>
<td>17.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-3.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.6</td>
</tr>
<tr>
<td>Special Benefit</td>
<td>16.3</td>
<td>5.2</td>
<td>9.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.2</td>
</tr>
<tr>
<td>Sickness Benefit</td>
<td>17.0</td>
<td>5.6</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4.9</td>
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<tr>
<td></td>
<td></td>
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<td>4.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.7</td>
</tr>
<tr>
<td>Family Assistance</td>
<td>-1.1</td>
<td>-3.3</td>
<td>b</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b</td>
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<tr>
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<td>b</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b</td>
</tr>
</tbody>
</table>

Notes:  

a) See Notes to Tables 1 and 2.  

b) Not estimated; see text for reasons.

Source: As for Tables 1 and 2.
In order to focus more specifically on the social security policies of the Hawke Government, it is useful to express these trends so that developments since 1982-83 can be compared with those over a longer period. This is done in Table 3. The outlays shown in Table 1 are now expressed in real terms by deflating by the Consumer Price Index (CPI). The first point to emphasise about the results in Table 3 is the contribution that growth in recipient numbers has made to real outlay growth. In all programs, more than half of real outlay growth over the period as a whole has arisen from the growth in recipient numbers, and for some programs this proportion is closer to three quarters.

Table 3 also indicates the extent to which real outlay growth has been curtailed since 1982-83, particularly in the case of unemployment benefit, although a significant slowdown is also apparent for real outlays on sole parent pensions, special benefit and sickness benefit. In terms of the growth in recipient numbers, experience since 1982-83 also shows a very marked slowdown compared with the period as a whole. The slowdown since 1982-83 in the growth of outlays on unemployment benefit and sole parent pensions - the two fastest areas of recipient number growth in the decade following the mid-seventies - is quite remarkable.

Table 3 also shows, for both periods, the average annual growth in the average level of real benefits paid under each program. The average real benefit level is defined as real outlays per recipient, with average benefit growth being calculated directly from the two other growth rates. Again, the growth in average real benefit levels has slowed in all cases since 1982-83, but by less than the growth in real outlays because recipient numbers have been rising less rapidly. For each of the income support categories shown in Table 3, average benefit levels have continued to increase in real terms since 1982-83, but by between 1.5 and 5 per cent a year less than for the period as a whole. The results do, however, indicate the extent to which the Hawke Government has managed to restrain the growth in real income support outlays, while continuing to provide average real benefit growth. In the case of the age pension and unemployment benefit, the period since 1982-83 has seen average benefit growth exceed real outlay growth, a situation that has occurred only very rarely, and even then only for very short periods of time, for any income support program since the late fifties (Saunders, 1987c). The general significance of the trends in Table 3 is, however, worth highlighting. Reduced outlay growth, combined with the protection or enhancement of average real benefits, implies that the growth in recipient numbers has to be curtailed. Recipient number growth was

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4 If RLOTL = real outlays, NR = number of recipients and A VBEN = the average real benefit level, it follows as a matter of definition that A VBEN = RLOTL/NR. The growth rate of A VBEN is thus equal to the difference between the growth rate of RLOTL and the growth rate of NR.
the major factor behind income support outlay growth throughout the sixties and seventies and its reduction has been a feature of Australian developments in the eighties. The significance of this for the development of the income support policies of the Hawke Government is explored further in Section 4.

3. INCOME SUPPORT TARGETING: CONCEPTS

The characterisation of the Australian income support system as highly selective rests on the extensive use of means tests to determine the degree of support received. From the time of initial introduction of old-age pensions by the Commonwealth Government in 1909, payment has been conditioned by the private means of those eligible. Initially, the pension means test had the effect of a dollar for dollar reduction in pension entitlement once the level of means exceeded certain limits. In 1969, a tapered means test was introduced with a withdrawal rate of 50 cents for each dollar of private means above a permissible amount. The Whitlam Government removed the means test for those aged 75 and over (in 1973) and subsequently for those aged 70 to 74 (in 1975). In 1976, the means test on all pensions and benefits was replaced by an income test which took account of income alone. From 1978, the pension payable to those aged 70 or over was held fixed in nominal terms with any increase above that as a result of payment indexation becoming subject to an income test. This had the effect of phasing back in the income test on those pensions freed from it by the Whitlam Government. This process was completed in 1983, when the Hawke Government introduced a special income test on that part of the pension that had remained free of income test. In March 1985, a pension assets test was introduced in addition to the income test, and this was subsequently extended to other benefit payments. Finally, in November 1987 an income test was introduced on family allowance payments, until then the only major form of income support payable free of income or assets tests. Thus, virtually all income support payments in Australia are currently subject to means tests on both income and assets, the main exception to this being the invalid pension payable to those who are permanently blind.

This brief description explains the sense in which the Australian system is seen as highly selective, for as writers such as Titmuss (1976) and Marshall (1981) have emphasised, it is the existence of means-tests which most clearly distinguish universal from selective provisions. However, while the distinction between universal and selective systems is still relevant, the attention of policy makers in recent years (in Australia as elsewhere) has focused on methods for influencing the degree of selectivity of income support arrangements as a response to on-going expenditure restraints. This raises questions for
social policy analysts that relate to the measurement of the degree of selectivity, the factors that affect it, and how these are influenced by income support policy changes. There is also the question of the relationship between selectivity in income support and income support targeting. The remainder of this paper focuses on these questions. Although this is done with specific reference to the Australian situation, the framework and specific analytical tools developed hopefully have broader applicability.

Categorisation

The income support systems currently in place throughout the world are all examples of categorical systems. That is, certain categories of the population are specified and it is only those satisfying those definitional requirements who qualify for consideration for income support. These basic categories may be defined in a number of ways, for example on the basis of age (the elderly; dependent children), health status (the sick; invalids), economic status (the unemployed), or family status (sole parents). Such a categorical approach, and a set of categorical definitions to operationalise it, is fundamental not only to the Australian social security system, but also to the kinds of social insurance schemes common in many other countries.

The only income support systems not based on some form of categorisation are negative tax schemes, be they of the negative income tax form proposed by Friedman (1962), or the social dividend/guaranteed minimum income (GMI) schemes given consideration in the seventies in a number of countries, including Australia. These schemes involve the integration of the income support and income tax systems, and seek to replace the categorical approach to income support by an income approach. The level of assistance under negative tax schemes depends on the level of income, irrespective of how that income is derived or why it is low. Paradoxically, negative tax schemes of the social dividend/GMI form combine a universal flat rate payment with increased reliance on selectivity, albeit achieved through an expanded income tax system operating in a way that does not preclude people from receiving the demogrant payment in the first place. The distinction between universal and selective systems is not always as clear-cut as is often assumed.

To argue that the concept of favoured categories is common to all existing income support systems is not to pre-judge the scope of the categories. This may differ across countries as well as over time within countries as circumstances and priorities change. All countries, for example, have a system of income support for the elderly, but they do not all have the same age of qualification, and nowhere is the age of qualification immutable. A recent OECD report notes that a number of countries have foreshadowed,
or are giving consideration to, raising the qualifying pension age in order to ease the financial pressures associated with population aging (OECD, 1988). Redefining the basic qualifying categories (or introducing new categories) is a legitimate means by which governments can bring their income support systems into line with broader fiscal imperatives. Some income support categories are, however, far more easily defined and administered than others. Those based on age, for example, are straightforward to specify and enforce. Those based on other personal characteristics such as family status, economic status or health status are far less easy to specify and enforce. In these latter cases, governments can influence the practical impact of given categorical definitions by varying the administrative procedures and processes that establish the categorical definitions. The rights of citizens to income support encapsulated in the categorical definitions can thus become subject to administrative discretion. The scope of favoured categories is restricted as a product of the administrative process rather than by the formal enactment of legislative change.

Eligibility and Entitlement

Eligibility for income support is established in principle once the categorical definitions are specified. In practical terms, however, as just observed, eligibility involves not only the definitions of the favoured categories, but also a set of procedures for administrative processing of applications to establish whether the definitions are being met. Eligibility only implies that consideration will be given to the provision of income support. To determine the actual amount of income support paid, or indeed whether any amount at all is to be paid, it is necessary to consider the question of entitlement. Entitlement rules specify the particular claimant characteristics that influence the amount of payment made to those deemed eligible for consideration, as well as the precise formulae that relate the level of assistance to the entitlement variables. Here, the distinction between means tested systems like that operating in Australia (or the social assistance schemes existing in many other countries) and social insurance schemes is of great significance. Under the Australian system, entitlement depends primarily on the means of those satisfying the entitlement criteria, through the operation of income and/or assets tests. In contrast, under social insurance schemes entitlement is normally independent of current means, although other factors such as previous earnings history (and hence previous contributions to the social security fund) determine entitlement. Other determining factors such as the number of dependants, housing tenure and housing costs, may also be important, but their general treatment is similar across different income support schemes.
The distinction between eligibility and entitlement can be illustrated with the help of two recent changes to the Australian income support system. The first example is the September 1987 decision to reduce to 15 the maximum age for children to qualify the parent for class A widow’s pension and supporting parent’s benefit. This change restricted the income support eligibility of sole parents without affecting entitlement. The second example is the introduction of the pension assets test in March 1985, which reduced entitlement (on a means tested basis) without restricting eligibility. Both changes were introduced in order to reduce recipient numbers and therefore total outlays, although this was achieved in different ways. The distinction between eligibility and entitlement is important in understanding the thrust of recent changes in Australian income support policies. Without it, it is difficult to understand what is meant by income support targeting and to comprehend the nature and impact of policies that seek to influence targeting.

Selectivity and Targeting

In the general sense of the word, both of the changes described in the previous paragraph can be described as leading to a more selective system of income support. On this basis, the system can be made more selective either by reducing the numbers receiving assistance (by narrowing the scope of the eligibility categories), or by reducing the benefits paid to some recipients (by tightening the entitlement rules). However, in the more specific sense in which the term selectivity is applied to income support (and other social welfare provisions), the two changes described above have quite different implications. This is apparent from the following quotation from Titmuss:


... there is a case for more selective services or benefits provided, as social rights, on the basis of the needs of certain categories, groups and territorial areas ... and not on the basis of individual means; there is a problem (as there always has been) of priorities in the allocation of scarce resources in the social policy field ... ‘Selectivity’ can mean many different things (which is rarely understood) but to most critics of ‘Welfare Statism’ it denotes an individual means test; some inquiry into resources to identify poor people who should be provided with free services or cash benefits; be excused charges, or pay lower charges. (Titmuss, 1976, pp. 114-115: emphasis in the original)

5 The immediate impact of the introduction of the pension assets test was to cancel 33.6 thousand pensions entirely and to reduce pension entitlement in a further 23.5 thousand cases (DSS, Annual Report 1984-85, p.19).

6 In practice, of course, the latter changes may also reduce recipient numbers by causing the entitlement of some to decline to zero.
On this narrower interpretation of the meaning of selectivity, the impact of the two changes is quite different. The former change has no impact on the degree of selectivity while the latter clearly does, since the means test is unaffected in the former case but tightened in the latter case. In terms of the concepts introduced earlier, policies which affect eligibility have no impact on selectivity, only those which influence entitlement.

This discussion suggests that the narrow meaning of the term selectivity has only limited relevance to the analysis of income support policy developments in recent years. As already noted, much of the growth in income support outlays in Australia in the last two decades, and in most other OECD countries also, has been the result of growing numbers of recipients (OECD, 1985). The government response has been to attempt to constrain outlays by constraining the growth in recipient numbers, partly because the alternative, reducing benefit levels, has been seen as more politically damaging. But reducing recipient numbers can be more directly achieved by changes to eligibility than by changes to entitlement, even though the latter will also have an impact. Yet if changes to eligibility do not affect the degree of selectivity in the narrow sense described above, the narrow concept of selectivity can have only limited applicability as a framework for describing and understanding recent changes to income support.

The alternative, and broader, concept is that of targeting. The attention given to increased targeting of assistance has been one of the most significant features of the Hawke Government’s approach to income support policy particularly since 1985. In a recent report by the Minister for Social Security, one of the five social security reform strategies of the Government was identified as ‘targeting social security programs to those most in need’, and among the Governments achievements listed was ‘better targeting of social security payments’ (Howe, 1989; pp. 2-3). Further, the government’s Social Justice Report issued in 1988 refers to increased targeting of assistance in social security and lists measures taken to tighten the income test on family allowances and the introduction of the assets test on pensions and benefits (Commonwealth of Australia, 1988, p. 23). Reference to targeting has also featured in the recent Annual Reports of the Department of Social Security. For example, the 1986-87 Annual Report highlights the fact that ‘targeting produces results’ when summarising the impact of its revised entitlement reviews of pension recipients (DSS, Annual Report 1986-87, p. 25). These examples suggest that the Hawke Government’s approach to targeting encompasses measures that restrict both eligibility and entitlement.

Improved targeting implies, in quantitative terms, that a greater proportion of program resources are directed to those whose needs are greatest (or whose means are lowest). The idea of targeting thus has much in common with the measurement of ‘vertical
expenditure efficiency' applied by Beckerman (1979) to the analysis of British social security payments. The political appeal of measures designed to 'improve targeting' is obvious. Improved targeting implies not only that there is a clearly specified objective (or target) for income support policies, but also that policies are being better aimed at the target. Improved targeting creates the vision of replacing a blunderbuss scattering buckshot over a wide area by a rifle firing a single bullet at the bullseye. This is a vast improvement if ammunition is in short supply. Its success, however, depends upon the target being the right one, as well as on the rifle bullet actually hitting the bullseye. As with other broad policy approaches, targeting does not come complete with a guarantee of success.

It is clear that the Hawke Government’s emphasis on improved targeting has in part been motivated by a desire to assist groups with high poverty rates, as evidenced by the Prime Minister’s ‘child poverty pledge’ of 1987, while at the same time seeking to operate within a strict fiscal climate (Brownlee and King, 1989; Saunders and Whiteford, 1987). The emphasis on targeting has, however, also been an integral part of a broader policy strategy aimed at reducing the growth in income support outlays and recipient numbers; a strategy also motivated by a desire to improve the integrity of the income support system through increased review and surveillance of the eligibility and entitlements of recipients. The methods used to pursue these goals and their impact is assessed in the following Section.

4. INCOME SUPPORT TARGETING: RECENT EXPERIENCE

Targeting Methods

The above discussion can be extended by distinguishing four separate steps in the process leading to receipt of income support, two relating to eligibility and two to entitlement:

Eligibility

i) Defining the scope of the ‘favoured’ categories.

ii) Initial review of claimants (and on-going review of recipients) in order to establish or confirm eligibility.
Entitlement

iii) Specification of the variables that influence entitlement.

iv) Specification of the precise relationship between the variables that determine entitlement and the level of assistance.

In recent years, the Hawke Government has introduced policies to reduce recipient numbers through each of these four mechanisms. Examples of each of the four include, respectively, the lowering of the maximum qualifying age of children for sole parent pensioners; the establishment of special mobile review teams for unemployment and sole parent pensioners; introduction of the assets test; and changes to parameters of the income test on pensions and benefits. The impact of each of the four mechanisms on the number of income support recipients can be illustrated with the help of the following relationship:

\[ NB = NT, (NS/NT), (NC/NS), (NR/NC), (NB/NR) \]

(1)

where \( NT \) = the size of the initial 'favoured category' or target group; \( NS \) = the numbers who fall 'within scope' as the target group definition is tightened; \( NC \) = the number of benefit claimants; \( NR \) = the number of new claimants (and existing recipients) who satisfy eligibility reviews; and \( NB \) = the number of eligible claimants with a positive benefit entitlement. The following relationship is expected to hold between the variables in equation (1):

\[ NT \geq NS \geq NC \geq NR \geq NB \]

(2)

The four bracketed terms on the right hand side of equation (1) can be referred to as factors relating to scope, take-up, eligibility review and benefit entitlement, respectively. The first and third of these correspond to steps (i) and (ii) described earlier, while the fourth combines the impact of steps (iii) and (iv). The second term, the take-up factor, is discussed further below.

It is not possible here to describe all of the changes introduced in recent years to influence each of the four factors identified in equation (1).\(^7\) Some general themes are, however, worth highlighting. The first relates to the question of take-up. Traditionally, the issue of low benefit take-up has not been a major concern in Australia, unlike in Britain where much has been made of the implications of stigma for rates of take-up of

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\(^7\) For a fuller discussion, see Saunders, Bradbury and Whiteford (1989).
means tested benefits (Deacon and Bradshaw, 1983; Chapter 7). However, while it may be true that stigma is not a serious concern in the Australian context, this is not the only reason for low take-up rates. Other factors include lack of information (or misinformation) about benefit eligibility and entitlement criteria, unwillingness to be submitted to departmental review and assessment procedures, or because the level of assistance does not justify the effort of applying. As with the question of stigma, very little is known about the extent to which each of these factors influence take-up in Australia. However, while each of them may be of little importance currently, moves to increase targeting may themselves have an adverse impact on future take-up rates. If take-up rates do fall with increased targeting, then the success of targeting as an overall strategy is brought into question, since this depends on those in the eligible target group coming forward to claim, and thus to receive, their entitlements.  

On the question of eligibility review, the Hawke Government has initiated a number of administrative reviews since 1986 with the intention of tightening checks on the eligibility of new claimants and existing recipients, in the process also checking the accuracy of benefit entitlements. One aim of this tightening and expansion of review procedures has been to minimise benefit fraud and abuse, thereby increasing the integrity of the income support system as a whole. Most of the increased review effort since 1986 has focused on recipients of unemployment benefit and supporting parent’s benefit, although increased attention has also been directed more recently to those receiving invalid pension and sickness benefit.

In addition to normal departmental administrative review procedures (albeit expanded in scope), a number of special additional reviews have been established, concentrating their activities on geographic areas and/or client groups identified by DSS as having a high-risk of potential incorrect assessment or overpayment. For those already receiving support, this process involves a confirmation of eligibility and entitlement assessments which DSS has itself already undertaken. Such activity can, however, be justified on the grounds that personal circumstances change over time and recipients may, for deliberate or other reasons, not inform DSS of their changed circumstances. For new claimants, increased administrative scrutiny of claims indicates the extent to which the definition of the scope of favoured categories can be ambiguous and thus subject to administrative discretion. Increased review activity may thus be a more politically acceptable way of

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8 In a recent paper on the take-up of the family income supplement (FIS) scheme introduced in 1983, Whiteford and Doyle (1989) estimate an overall take-up rate of less than 15 per cent in 1986. Deficiencies in the data used in this study suggest that there may be a wide margin of error on this estimate, but it appears that the problem of low take-up is potentially serious in Australia, at least in some programs.
restricting scope than direct (and transparent) legislative changes to eligibility criteria. Their impact on the equitable treatment of DSS clients is, however, an issue requiring further study.

According to evidence published in recent DSS Annual Reports, a total of over 1.4 million cases were subject to review in 1986-87 and 1987-88. These reviews led to payment cancellation in 94.6 thousand cases (6.7% of all cases reviewed), reduced payments in 196.1 thousand cases (13.9%), and increased payments in 161.3 thousand cases (11.4%). The remaining 961.9 thousand cases (68%) have seen payment levels unaffected by the reviews undertaken. Even given that many of the reviews have concentrated on high-risk cases, the fact that payments have been cancelled or adjusted in almost a third of all cases reviewed is extremely perplexing. As at 30 June 1987 - the mid-point of the period covered by these estimates - there were a total of 1.33 million persons in receipt of either invalid pension, widow’s pension, supporting parent’s benefit, unemployment benefit, or sickness benefit (DSS, Annual Report 1987-88, p. 149), suggesting that a very considerable proportion of these recipients have been subject to review over the period. More significantly, the total number of recipients of these payments declined between 30 June 1986 and 30 June 1988 from 1323.0 thousand to 1264.6 thousand, or by over 58 thousand. Yet the reviews themselves have resulted in a total of 94.6 thousand payment cancellations over the period. These payment cancellations have thus resulted not only in arresting the growth in recipient numbers, but have actually led to a decline.

Changes affecting the benefit ratio in equation (1) are more mixed and their overall impact is less easy to determine. This reflects the conflict between the aim of restraining outlays on the one hand, and maintaining incentives on the other. The impact of high effective marginal tax rates on disincentives and benefit dependency as a result of the poverty trap has made governments wary of tightening income tests on beneficiaries of working age.9 Despite this, means tests have been tightened in a number of areas since 1983, some of which have already been described. However, at the same as these measures have tightened means tests, particularly for the elderly and families with children, other changes have relaxed income tests by increasing the free area and

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9 For an analysis of poverty traps in the Australian system, see Whiteford, Bradbury and Saunders (1989).
lowering the withdrawal rate. \( \text{10} \) Because of the nature of these changes, any simple generalisation about the overall change in the severity of means tests (and hence, using the earlier terminology, in the degree of selectivity of the system) is not possible. Changes in the severity of the income test for particular types of recipient can, however, be examined. In order to do this, the parameters of the income test have been expressed relative to household disposable income per capita (HDYC), since the severity of the income test can only be judged in relation to what is happening to average community income levels themselves.

Because of the way in which the income test is structured, any increase in the free area, however that comes about, leads automatically to an increase in the cut-out point, or the income level at which pension or benefit entitlement falls to zero (assuming that the withdrawal rate is unchanged). \( \text{11} \) Thus, an increase in the free area lowers the severity of the income test on those already in receipt of an income tested payment, but also raises the numbers affected by the income test because the cut-out point is increased. It is therefore a matter of debate as to whether such a move represents an overall easing of the income test. This point aside, it is nonetheless of interest to investigate further the nature of changes in the severity of the income test in light of the earlier discussion.

Figures 1 and 2 illustrate changes in the severity of the income test over the 1969-89 period for a single pensioner and single adult (aged over 18) unemployment beneficiary, respectively. The broad trends for other income support recipients are similar to those illustrated, and are therefore not shown. The Figures show, for each payment type the maximum rate of pension or benefit, the private income level at which the income test begins to affect payment received (i.e. the free area), and the private income level at which payment entitlement falls to zero (i.e. the cut-out point). The gap between the lower and middle lines in each of the Figures indicates the size of the free area (expressed relative to HDYC), while the gap between the middle and upper lines

\( \text{10} \) The income test in the Australian system consists of a free area (F) and a withdrawal rate (W). Non-benefit income up to the value of F has no impact on pension or benefit received. Beyond F, however, income support is reduced at the rate W for each additional dollar of private income. For pensions, W is equal to 50 per cent; for benefits, W is equal to 50 per cent up to certain levels, and to 100 per cent beyond that.

\( \text{11} \) For pensions, where there is a single withdrawal rate, the following relationship holds between the pension level (P), the free area (F), the withdrawal rate (W) and the cut-out point (C):

\[ C = F + P/W \]

Thus, an increase in F causes C to rise by the same amount if P and W are unchanged. The situation is a little more complex for benefits because of the kinked income test comprising an initial withdrawal rate of 50 per cent, rising to 100 per cent. The general point, however, remains.
Figure 1: Changes in the Income Test, 1969-89
Single Pensioner

Figure 2: Changes in the Income Test, 1969-89
Single Adult Unemployment Beneficiary
indicates the income range over which the income test operates (again, expressed relative to HDYC). The closer together are the lower and upper lines in the Figures, the more severe is the income test. This can arise either because of a low free area (which closes the gap between the lower two lines) or because of a high withdrawal rate (which closes the gap between the upper two lines).

For pensioners, Figure 1 indicates that the income test was eased considerably between 1969 and 1975. Since then, the general trend has been for the severity of the income test to increase, primarily because the free area has fallen relative to HDYC. As a consequence, the cut-out point has also tended to decline relative to HDYC. For adult unemployment beneficiaries, the longer-run picture is quite different. Up until 1982, the value of the free area relative to HDYC declined, but since then it has increased considerably. Prior to 1980, when a 100 per cent withdrawal rate applied over all private incomes, the cut-out point was equal to the benefit plus the free area, but the introduction of the tapered income test in November 1980 led to an easing of the beneficiary income test. Together, these changes imply a considerable easing of the beneficiary income test in the eighties compared with the seventies.

An indication of the impact of changes to the income test introduced by the Hawke Government can be assessed against these longer run trends by focusing on developments since 1983. In the case of age pensioners, changes since 1983 have not affected the longer-run picture since 1973 already described. For adult unemployment beneficiaries, however, significant increases since 1983 in the free area (even when expressed relative to IIDYC) have contributed to an easing of the income test. These changes have been introduced to encourage the transition from benefit to work by enhancing the financial rewards from paid work. They are part of a broader strategy to encourage better integration of income support programs with the labour market (Cass and McClelland, 1989).

The analysis thus suggests that while the existence of income tests has made the Australian income support system highly selective, recent experience has seen policies intended to increase the targeting of income support through measures that have not markedly increased the severity of income tests on many pensioners and beneficiaries. Increased targeting has primarily been achieved through greater administrative surveillance of new and existing recipients rather than through tightening income tests (with some exceptions in the family assistance area). Concerns over the detrimental effects on incentives implied by high effective marginal tax rates have no doubt been in

12 It follows directly from the formula presented in footnote 11 that \( C = F + P \) when \( W = 1 \).
part responsible for this approach. It would appear that in recent years changes in the Australian social security system have produced a system that is more targeted, but no more selective, than in earlier years.

5. MEASURING THE DEGREE OF SELECTIVITY

While it may be the case that the severity of income tests in the Australian income support system has not increased in recent years, it is nonetheless the case that they serve to produce a selective system of income support. But precisely how selective is it? Is the degree of selectivity similar across different programs in the system? And how has the degree of selectivity been changing? To answer these questions, it is necessary to develop a quantitative measure of the degree of selectivity. The measure proposed is based on the narrow definition of selectivity discussed earlier. In selective systems, income and other means tests serve to reduce the entitlements of some eligible individuals relative to what they would receive in a universal (non-means tested) system. In the process, the total level of outlays is reduced, the reduction being greater the more selective the system. The index of selectivity is thus based on a comparison of actual program outlays with an estimate of what outlays would be under a universal system, i.e. one characterised by the absence of any income or other means tests. This latter estimate is derived from demographic and other data on the size and composition of the eligible population relevant to each program and the maximum rates of entitlement payable.\footnote{The assumptions necessary to derive these estimates are contained in the Appendix to Saunders, Bradbury and Whiteford (1989), which is available on request from the author.}

More specifically, the selectivity index ($S$) is defined as follows:

$$S = 1 - \left( \frac{ACTOTL}{UNIVOTL} \right)$$  \hspace{1cm} (3)

where $ACTOTL = \text{actual program outlays in each year}$; and $UNIVOTL = \text{estimated program outlays on the assumption that all those within-scope for eligibility purposes receive the maximum rate of entitlement}$. The selectivity index varies between zero and one, being equal to zero when the program is universal and increasing towards one as it becomes more selective due to the operation of income and assets tests. The relationship between the selectivity index and the income test can be illustrated by noting that:

$$ACTOTL = N_1.B + N_2 \cdot B + N_3 \cdot O$$  \hspace{1cm} (4)
where \( B \) = the maximum rate of benefit; \( N_1 \) = the number of recipients receiving the maximum benefit (i.e. those with private incomes below the free area); \( \lambda \) = the proportion of the maximum benefit received on average by those receiving a part-rate benefit (i.e. those with private incomes above the free area but below the cut-out point); \( N_2 \) = the number of part-rate benefit recipients; and \( N_3 \) = the number of recipients whose benefit entitlement is zero (i.e. those whose private income exceeds the income test cut-out point). Given the size of the target population (\( N = N_1 + N_2 + N_3 \)), the cost of a universal program is given by:

\[
\text{UNIVOTL} = N.B = (N_1 + N_2 + N_3)B
\]  

(5)

Substituting from (4) and (5) into (3) and rearranging produces the following expression:

\[
S = 1 - n_1 \cdot \lambda \cdot n_2
\]  

(6)

where \( n_1 = N_1/N \) and \( n_2 = N_2/N \). For a given eligible population, \( n_1 \) will depend upon the size of the income test free area while \( \lambda \) and \( n_2 \) will depend both upon the size of the free area and the income test withdrawal rate (and hence the income test cut-out point). It follows that measures which ease the income test by raising the free area or lowering the withdrawal rate (i.e. by widening the gap between the lower and upper lines in Figures 1 and 2) will lead to a less selective system (i.e. the selectivity index, \( S \), will decline), while measures that tighten the income test will cause the selectivity index to increase.

As already noted, the effect of income tests is to lower program outlays relative to what they would be if the system were universal. It is thus possible to use the selectivity index to estimate directly the cost of removing the income and other means tests, moving from a selective to a universal program. This cost, equal by definition to the difference between UNIVOTL and ACTOTL in (3), can be denoted COSTUNIV, where:

\[
\text{COSTUNIV} = A.S/(1-S)
\]  

(7)

More directly, using (4) and (5):

\[
\text{COSTUNIV} = N_2(1-\lambda) \cdot B + N_3B = B(N_2(1-\lambda) + N_3)
\]  

(8)

Thus as already noted, and as equation (8) shows, the cost of universality involves two elements; the topping-up of the part-rate benefits of those currently in the income test withdrawal range, and the cost of paying benefits to those currently excluded entirely by the operation of the income test. The relative importance of the two cost terms on the
right hand side of (8) depends upon the structure of the existing income test and the distribution of income among those eligible for support under each program.

The selectivity index derived from equation (3) has been estimated for each year over the period 1969-89 for three income support programs in Australia: the age pension, family assistance and income support specifically for sole parent families. Because of the assumptions necessary to estimate UNIVOTL, the precise values of the selectivity index in any single year are likely to be subject to a margin of error and should accordingly not be given undue emphasis. Trends over time are, however, likely to be more reliable and are given more emphasis in what follows. Finally, it is worth emphasising that the diagrammatic representations of trends in the degree of selectivity are constructed so that the closer the index is to zero, the less selective (or more universal) the system is in that year.

The estimated selectivity index for the age pension in each year from 1969-70 to 1988-89 is shown in Figure 3. After increasing at the beginning of the period, age pension selectivity began to fall in 1971-72 from its peak of 42 per cent. The decline in selectivity accelerated in 1973-74 and again in 1975-76, but the overall fall continued until 1977-78 when the index reached its minimum of 15 per cent. Since then, age pension selectivity has been rising steadily, on average by about 1.5 percentage points a year. By 1988-89 the index was close to 32 per cent, its highest value since 1972-73. Although the Whitlam Government's moves to universalise the age pension for those aged over 70 are apparent from Figure 3, the impact of the Hawke Government's assets test is less immediately obvious. The selectivity index did, however, rise between 1983-84 and 1985-86 from 26 per cent to almost 30 per cent. However, what is perhaps most striking about Figure 3 is the fact that the impact of successive governments on age pension selectivity is not immediately apparent. The Whitlam Government continued a trend towards universality that had begun well before it came to office, while the Hawke Government has continued the trend towards increasing selectivity that began in 1978.

Figure 4 shows the selectivity index in the case of family assistance payments. The index has been constructed by calculating the ratio of actual outlays to an estimate of what outlays on family assistance payments in the form of additional pension/benefit for children, child endowment/family allowance and family income supplement/family allowance supplement would have been if each payment were to have been universally available in each year at maximum payment rates in respect of the estimated number of eligible children (and full-time students). In order to highlight the trends more precisely, Figure 4 shows the selectivity index for family assistance payments as a whole as well as for child endowment/family allowance and the remaining payments separately. In the
Figure 3: Movements in Age Pension Selectivity, 1969-89

Selectivity Index (%)
Figure 4: Movements in Family Assistance Selectivity, 1969-89

Selectivity Index (%)

Financial Year Ending 30 June


Other Assistance

Total Family Assistance

Family Allowance
former case, the selectivity index is equal to zero until 1985-86 because these payments were universal up to then, but it increases thereafter as the income test began to apply to family allowances.

Interpretation of movements in the selectivity index for family assistance is more complex than in the case of the age pension because of the range of income support measures included in the analysis. This is particularly the case for movements in the index for payments other than child endowment/family allowance. Thus, for example, any rise in the number of DSS pensioners or beneficiaries with children automatically causes a rise in actual outlays on family assistance and thus a fall in the selectivity index, even where government policy is unchanged. The selectivity index thus incorporates the impact of these changes in economic conditions (and demographic changes like the rise in the number of sole parent families) as well as changes in income support policies.

Finally, the selectivity index for total family assistance payments depends both upon the selectivity of the two separate components and on the relative size of each of these two components. Thus, the sharp drop in the degree of selectivity in 1976-77 shown in Figure 4 reflects the large increase in outlays under the new family allowance scheme (and the correspondingly higher weight the total selectivity index gives to this component) rather than any marked change in the selectivity of any of the components of family assistance.

For the period as a whole, the selectivity index for family assistance payments as a whole is higher than that for the age pension, despite the existence of universal child endowment/family allowance for much of the period. The reason for this is that the other family assistance components were very highly selective and their cost was large enough relative to the cost of the universal component to cause a high degree of selectivity overall. Although the precise reasons for movements in the selectivity index for family assistance are complex and difficult to isolate, the general trend has been for increased selectivity up until 1975-76, followed by a sharp decline in 1976-77 with the introduction of family allowances. Since then, selectivity has been on a general downward trend until 1983-84, interrupted by an increase in 1980-81 that was reversed two years later. Since 1983-84, a clear trend towards increased selectivity of family assistance under the Hawke Government is apparent, the overall index increasing from below 51 per cent in 1983-84 to almost 61 per cent in 1987-88, reflecting both the income testing of family allowances and the impact of the FIS scheme. This trend is, however, reversed in 1988-89 as a result of the expansion of coverage and expenditure

14 Such a change occurred in 1982-83 when rising unemployment fell disproportionately among families with children (Saunders and Whiteford, 1987; Whiteford, 1987).
associated with the replacement of FIS by the new FAS scheme, despite the increase in family allowance selectivity. The general trend in family policy under the Hawke Government has thus been one of increasing selectivity of assistance achieved through the expansion of selective payments to low income families and the introduction of income tests on family allowances to high income families. These have combined to produce a more highly selective family assistance system, but one that remains less selective than it was in the period prior to the introduction of family allowances in 1976-77.

The selectivity index for sole parent pensions is shown in Figure 5 for the period since 1974-75. There is again a need to interpret the level and changes in the selectivity index with caution, as it is sensitive to the numbers receiving income support and this in turn varies with labour market conditions and the availability of jobs, child care opportunities, and so on. The selectivity index will thus decline as the number of sole parents receiving assistance rises, even in the absence of changes to the income test. In general terms, Figure 5 shows that this has indeed occurred, the selectivity index declining steadily from around 45 per cent in 1974-75 to 20 per cent by 1985-86. This decline has, however, been reversed since 1985-86 with an increase in the selectivity index to almost 24 per cent by 1988-89, although it is difficult to ascertain the extent to which government income support policies alone have contributed to this. To some extent this increase in selectivity reflects the tightened administration of payments since 1986 already discussed.

6. SUMMARY AND CONCLUSIONS

The worldwide deterioration in economic performance since the mid-seventies has had two significant implications for social security. The rise in unemployment has exacerbated problems of inequality and poverty, and placed additional demands on social security budgets. At the same time, the macroeconomic response involving fiscal restraint has placed limits on the growth of resources directed to social security budgets. One response to this has been for governments to look towards ways of improving the targeting of income support resources by directing the limited resources available to those most in need of additional assistance. The Australian Government of Prime Minister Hawke has been particularly active in pursuing targeted income support policies, and the lessons to be drawn from this experience are of general interest.

15 Supporting mother’s benefit was introduced in July 1973 and extended to supporting fathers in November 1977. Lack of demographic data prevented calculation of the selectivity index prior to 1974-75.
Figure 5: Movements in Sole Parent Pensions Selectivity, 1969-89
The analysis in this paper began with an overview of longer-run trends in social security outlays in Australia. Throughout the sixties and seventies, much of the observed growth in outlays reflected an increase in recipient numbers. The Hawke Government's response to this has been to check the growth in numbers in order to sustain real benefit increases from a budget that was limited by broader fiscal considerations. Some basic income support concepts were introduced in order that the full range of policies pursued in an attempt to improve income support targeting could be understood. These concepts, notably the distinction between eligibility and entitlement, were also used to highlight the difference between income support targeting and selectivity in income support.

A framework was developed to help identify and isolate the precise channels through which targeted income support policies can influence recipient numbers and income support outlays. This framework was then applied to describe and analyse the policies introduced by the Hawke Government, particularly in the period since 1986. The results suggest that while broad generalisations are difficult to make, these policies have had the effect of producing a more targeted, but not necessarily a more selective, system. Finally, a method was developed to measure the degree of selectivity of income support programs, and applied to changes over the last two decades in age pensions, family assistance and sole parent's pensions. The results suggest that the degree of selectivity varies considerably across the three programs, again implying that broad generalisation for the income support system as a whole are not possible. The method has general applicability and it would be interesting to see the results of its application across income support programs in a range of countries. Such analysis would begin to reveal the extent to which the Australian system deserves its description as the most selective among advanced nations.
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