Global Pressures, National Responses: the Australian Welfare State in Context

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GLOBAL PRESSURES, NATIONAL RESPONSES
THE AUSTRALIAN WELFARE STATE IN CONTEXT

by Peter Saunders

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The series is indebted to Diana Encel for her continuing editorial contribution.

Tony Eardley
Editor

Abstract

The welfare state remains the subject of intense debate over its effects and effectiveness. How has it responded to changes in community values, political priorities and global economic forces? Statistics on the size of the welfare state must be treated with care, particularly those which compare developments across different countries. The Australian data confirm that spending by government on welfare programs continued to rise over the 1990s, as has employment in those industries that provide welfare services. The same general trend is apparent for most other OECD countries, although Australia continues to spend one of the lowest proportions of GDP on its welfare programs. In 1992, the ratio of social expenditure to GDP in Australia was lower than that prevailing in all but five OECD countries in 1980. Whether the past trajectory of welfare expenditure continues on an upward path, will depend upon how the welfare state responds to some of its current challenges. Three of the specific ‘crises’ alleged to be confronting the welfare state are discussed in this paper: the demographic crisis; the crisis of affordability; and the crisis of legitimacy. All three phenomena remain relatively poorly understood and each would benefit from an increased research effort. Those who describe the underlying forces as constituting a ‘crisis’ are generally trying to generate community support for the need for change. While it is clear that contextual changes often require a change in policy, the crucial issue facing the Australian welfare state is whether it can embrace internal change without undermining its role as a buffer against external change for those who are experiencing it.

1 Introduction

The welfare state represents the institutional expression of a political compromise between economic imperatives and social objectives initially negotiated earlier this century. As such, its development has had a major impact on both what was achievable economically and what was acceptable socially. Not surprisingly, the terms on which the original compromise rested have been the subject of debate and revision as economic conditions, social circumstances and community values have changed. The performance of the welfare state itself has been criticised and its achievements questioned. Its cost has been argued as too high by some and too low by others; its effects as marginal or substantive; its support as widespread and steadfast or sectionalised and diminishing.

The controversy surrounding the welfare state is hardly surprising. In terms of size alone, it now absorbs on average around a quarter of the national income of OECD economies and accounts for a considerable proportion of government revenue. As a consequence of this, employment in the welfare state accounts for a sizeable portion of the labour force - and for major parts of specific occupational categories. Taxpayers are right to question where their money is going and what they are getting for it. With most OECD governments experiencing extreme fiscal pressures for much of the last three decades, the impacts (positive and negative) of the welfare state have come under the microscope and, in the eyes of many, found wanting.

Yet the debate over the role and impact of the welfare state has been conducted at several overlapping levels which have not been easy to disentangle. This has proved to be fertile ground for the promotion of political or ideological goals under the guise of ‘technical’ economic and social analysis. How well has the welfare state achieved its egalitarian objectives and at what cost? Has it been responsive to changing pressures or become an arena for the pursuit of sectional interests and the playing-out of professional rivalries? To what extent do the problems addressed by welfare programs correspond to the concerns of the taxpayer/voters whose resources fund them? How many of the problems to which welfare programs are directed are themselves the product - often indirect and generally unintended - of those same programs, or earlier versions of them?

For at least the last two decades, these issues have been raised and analysed in an environment of crisis - initially fiscal, but now increasingly social and economic also. As one crisis has been weathered, another has emerged to replace it. The result, as Esping-Andersen (1997) has argued, has been that the welfare state has remained in a perennial state of crisis. The word ‘crisis’ has intentionally been used to create the impression that action, preferably urgent action and possibly also substantive action, is required. Those who use this vocabulary understand its connotation; something has to be done and those who argue otherwise are resisting the inevitable, probably from a perspective of self-interest. Proponents of the welfare state have been on the defensive and have had to respond to an agenda set by others.

As these debates have unfolded, the nature of the economic system itself and many of the social values and institutions which support it have also been undergoing fundamental change. Market forces now play an increasing role in all aspects of economic activity and there is little sign of any reversal of this trend. The role of the state is being residualised; its goal is to facilitate the forces of global competition in ways that promote the national interest. Large welfare states are an anathema to this process because they impede market forces and undermine competitiveness. The coverage of the ‘big top’ welfare state has been reduced to the protection provided by a ‘safety net’.

These tensions are most starkly evident in the labour market, where welfare benefits are blamed for eroding the incentive to work, while welfare taxes add to labour costs and reduce employment. These effects are operating against a background of high and sustained unemployment and in a climate where working patterns are changing in ways which are undermining the assumptions on which the welfare state was based. Increasingly, people need an income package containing both wages and welfare in order to maintain an adequate standard of living.

This paper provides some background to these issues by reviewing the recent developments in the Australian welfare state and locating these in a broader international context. The central theme explored throughout the paper is the relationship between the development of the welfare state and changes in the labour market, in a context where the former has acted to both promote and in some cases impede, the latter. This complex and interwoven set of interactions between welfare and labour are central to much of the contemporary social policy debate.

The paper is in two halves: Section 2 describes the main features of recent welfare state development in Australia and other countries, focusing on how this development reflects and influences labour market trends. Section 3 then reviews some of the main threads in the recent ‘welfare crisis’ literature and asks what kinds of challenges these pose for the future of the Australian welfare state and for human services generally. The main conclusions are summarised briefly in Section 4.

2 Welfare State Development in the 1990s

The Statistical Framework

Although the welfare state represents the political expression of a set of social objectives and has economic consequences, it is also a statistical category. In order to compare welfare state development over time or across countries, it must be measured in ways that provide consistency. The framework generally used for this purpose is based on the National Accounts, specifically those parts that record the financial transactions of the government sector. These focus on a sub-set of total government outlays - expenditures on the provision of goods and services and transfer payments - which fall within a limited number of functional classification areas.

There are a number of well-known but important limitations to the use of government outlays in describing the size of the welfare state within and between countries. Amongst these is the fact that there are alternative ways for the state to achieve its welfare or social protection objectives. These include granting tax breaks to encourage private insurance against social risks or promote membership of private pension schemes, or through direct regulation of activity in some areas. Some of these activities appear in the official reporting of government financial transactions, while others are ‘off-budget’ and essentially hidden. A welfare state can be big without spending big (in the National Accounts sense).

It follows that the form in which the state decides to support welfare activity can have a substantial bearing on what the conventional statistics show. This can be illustrated by comparing data for Sweden and the United States, two countries lying at opposite ends of the welfare state spectrum. Data recently reported by Esping-Andersen (1997) indicate that the level of public social expenditure in Sweden in 1990 was more than 33 per cent of Swedish GDP, over twice the corresponding figure for the US (14.6 per cent of GDP). However, private education, health and pension expenditures in the US were 13.7 per cent of GDP, well above the Swedish figure of three per cent. When these latter totals (along with the costs of day care for families with children) are added to taxes, total social protection costs in the two countries as a percentage of private household expenditure become very close: 41.2 per cent in Sweden and 39.6 per cent in the US (Esping-Andersen, 1997, Table 2.5).

At one level, these comparisons indicate that care is needed when interpreting the data on social expenditures in different countries because they represent only one of the many alternative forms of social policy intervention. Direct expenditure in one nation may be replaced by tax concessions or direct regulation elsewhere, and each may produce similar overall effects.[1] More significantly, such examples also highlight the fact that many of the services provided by the welfare state can also be provided (and paid for) privately, either alongside or instead of the public welfare system.

It is also important to recognise that even within the conventional public domain, the welfare state is defined in different ways in different data collections. Within Australia, for example, most analyses of the welfare state (e.g. Jones, 1996) include - in addition to spending by all levels of government on the core welfare state programs of social security, health and education - expenditures on housing and community care programs and in some cases also employment programs. In contrast, the scope of some of the international statistical collections is narrower, either because some programs are excluded (as in the case of housing expenditures in the OECD social expenditure database), or because reliable comparative data can only be obtained for central government (as in the case of the functionally disaggregated expenditure data published by the International Monetary Fund (IMF) and the World Bank).

To further add to these complexities, the categories themselves are adjusted over time in line with changes in policy and other priorities. For example, many social security programs now include services such as case management or job training and placement, which are part of benefit eligibility requirements. Designing packages of cash and non-cash support which meet a variety of interconnected needs means that conventional statistical boundaries become blurred.

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1 In a similar vein, Adema (1997, Table 2) demonstrates that cross-country differences in gross social expenditure (as recorded in the OECD database - see below) narrow considerably once account is taken of factors such as the imposition of direct and indirect taxes on public transfers and tax breaks on public and private social expenditures.

This discussion emphasises the need for considerable caution when interpreting trends and comparisons in the data on welfare state expenditure. There are already many examples of data being published without the suitable qualifications being applied to them. One example of this can be found in *Australia's Welfare 1997: Services and Assistance*, an otherwise excellent account of Australia's welfare services expenditure trends published by the Australian Institute of Health and Welfare (AIHW, 1997).

Chapter 2 of that report contains some comparisons between welfare services expenditure in Australia and other OECD countries, using unpublished OECD data. The comparisons convert the 1992 expenditure data to Australian dollars using purchasing power parity conversions and express each country's figure in per capita terms by dividing by total population size. The figure for Australia itself is just over $264 (declining to $215 if State and Territory expenditures are excluded). The average figure for all 21 OECD countries shown in the Table is $217, but the range is absolutely enormous. The highest recorded figure is for Sweden ($1416) while the lowest figure is that for Italy, at a mere *eight cents* per person on average. Several European countries including Austria and Belgium have recorded figures of around $60 (less than a quarter of that for Aust0ralia), while the figure for New Zealand figure is $48 and for Canada is $788.

It is likely that these comparisons provide a very misleading picture of welfare service expenditures in OECD countries. Although I have no reason to doubt the accuracy of the Australian figures (which are provided to the OECD by AIHW itself), I doubt whether the same can be said of the figures for some of the other countries.[2] I know that Italians have a healthy disregard for all forms of bureaucracy, but the figure quoted for them of eight cents a week cannot be right. Austria and Belgium both have larger welfare states than Australia, yet appear to spend much less on welfare services than we do. I also find the Australia-New Zealand comparison difficult to believe. Although I do not have an explanation for why some

2 It should be emphasised that the AIHW is aware of these potential data limitations and is careful to alert the readers of *Australia's Welfare 1997* to these. It notes, for example, in relation to the OECD social expenditure database that: '… ultimately, it is the providing agencies that interpret the OECD's requirements in respect of a particular area of social expenditure. This leads to some inconsistency in the allocation of expenditure to government welfare services, particularly at the lower levels of aggregation' (AIHW, 1997: 43).

of these differences are so large, the mere fact that they can be published by a highly respected agency illustrates my point about the need for caution when using these kinds of data - a point that should be kept in mind for the remainder of this paper!

Australian Developments

According to the latest available data, the total consolidated outlays of the Australian public sector in 1995-96 were just below $176 billion, or 35.7 per cent of GDP (ABS, 1997). Of this total, outlays in the four main welfare state areas - education, health, social security and welfare, and housing and community amenities - were $105 billion, equivalent to 60 per cent of total outlays or 21.4 per cent of GDP.[3]

Figure 1 shows that total outlays at all three levels of government have continued to grow, albeit modestly and with some short-run declines, over the last decade. This is true even after allowing for the increase in consumer prices, an adjustment which approximates the level of real tax resources needed to fund government outlays. Welfare state spending has grown more rapidly than government spending as a whole, with the result that the proportion of total government outlays accounted for by the four areas of social expenditure increased from just over 50 per cent in 1988-89 to an estimate of just over 60 per cent in 1997-98. Growth has been most rapid in the areas of health and social security and welfare, where outlays increased by 37.0 per cent and 54.4 per cent, respectively, compared with the 15.3 per cent increase in total outlays.

Over the longer term, the growth in welfare state outlays has had important implications for the structure of the Australian labour market. Among the most significant of recent labour market trends are the increased participation of married women and the growing importance of part-time relative to full-time employment.[4] These trends are interrelated in the sense that the incidence of part-time work is higher among married women than among other sections of the labour market. Both trends are a direct consequence of increased absolute and relative employment in the

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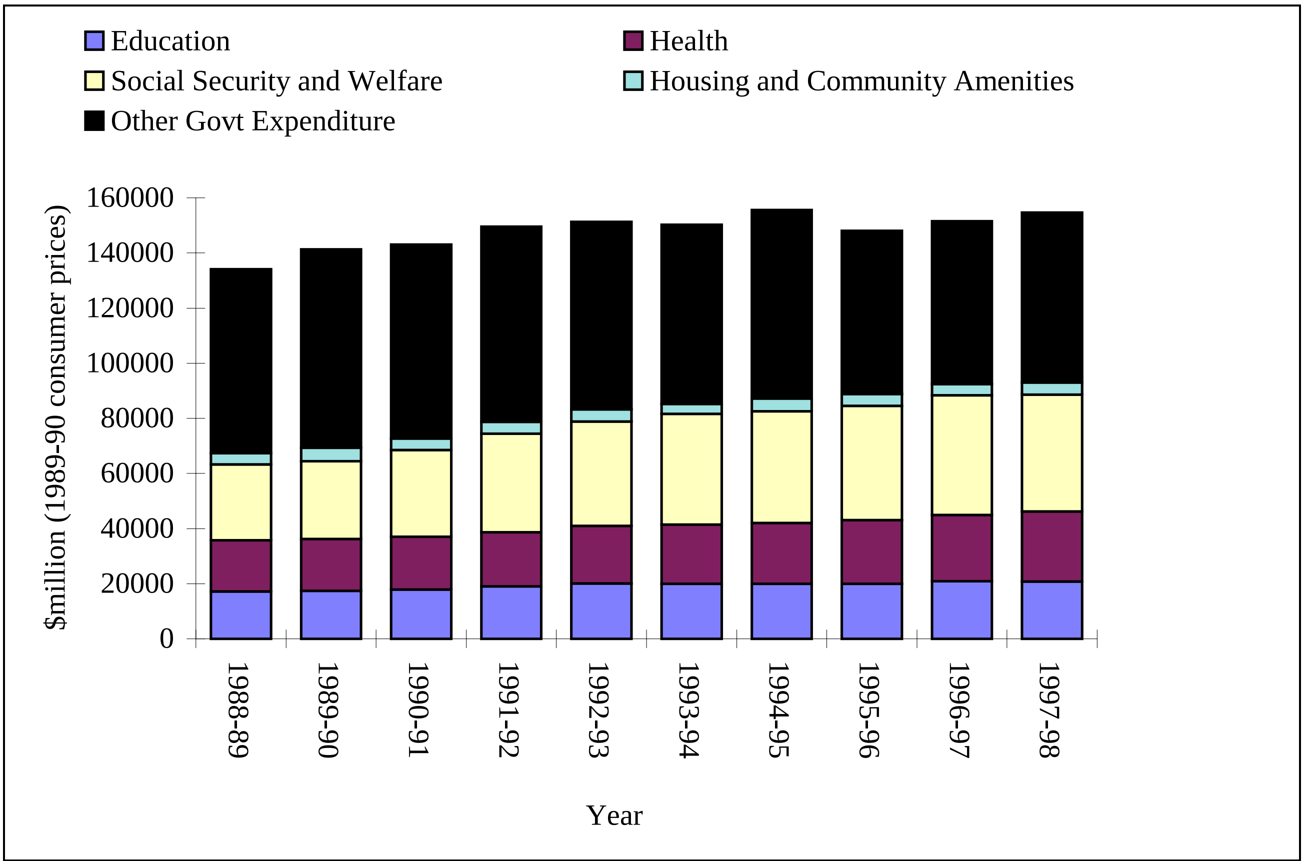
3 This figure excludes the imputed value of unpaid voluntary work in the community services sector, which AIHW has estimated to exceed $1.4 billion in 1994-95 (AIHW, 1997, Table 2.16).

4 These and other labour market trends are described and discussed in detail in the collection of papers edited by Norris and Wooden (1996).

Figure 1: Recent Trends in Australian Social Expenditure: 1988-89 to 1997-98



community services industry, which includes education, health services and community services, the counterpart to the social program service outlays shown in Figure 1.

Between August 1966 and August 1996, employment in the community services industry increased from 10.1 per cent of total employment to 16.4 per cent. Among married women, the increase was even greater, the proportion employed in community services increasing from 16.4 per cent in 1966 to 30.3 per cent three decades later (Figure 2).[5] Thus almost one-third of all married women now in paid work are employed in the human services sector - education, health and community services.

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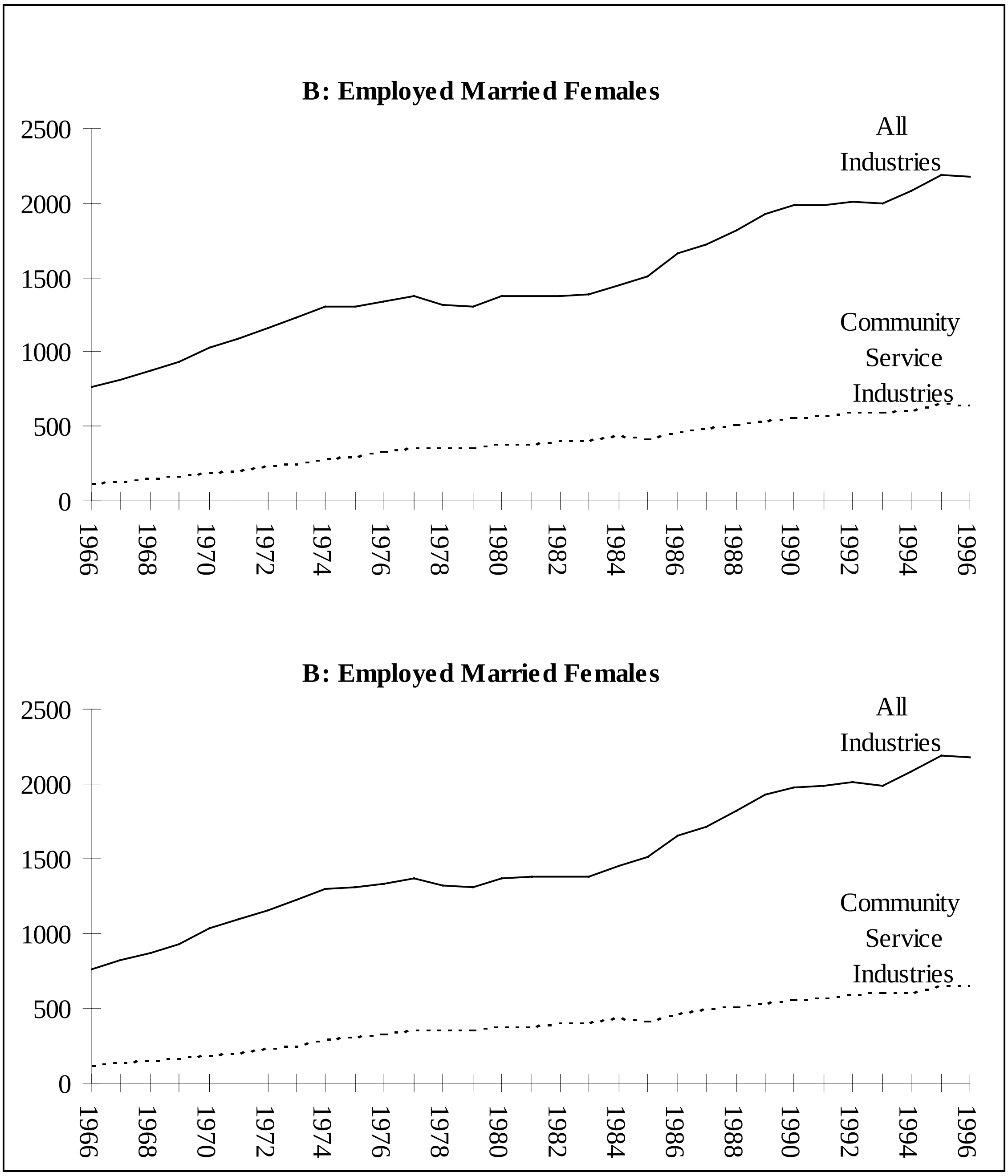
5 There was a definitional break in the mid-1980s in the series for employment in the community services industry shown in Figure 2, although the effect was not large enough to distort the patterns shown.

Figure 2: Trends in Employed Persons: 1966-1996 (August)



The expansion of the welfare state has thus provided a route into employment for the increasing numbers of married women who have joined the labour market over the last three decades. This does necessarily imply that without the growth in welfare spending, the increased labour force involvement of married women would not have taken place. Many of these women could and would have found work in other industries had the welfare state not expanded as it did. Nevertheless, the fact that so many women have been absorbed into the welfare state labour force suggests that any marked change in the pattern of future employment trends will have important consequences for how the labour market is segregated by gender.

Some of the other structural consequences of labour market changes are illustrated by the estimates presented in Table 1 which refer to February 1998.[6] Table 1 shows that although the community services sector (defined as before) accounts for just under 20 per cent of wage and salary earners, it is characterised by a high proportion of public sector and part-time earners, as well as by a high proportion of female employees. The close links between the expansion of community services and changes in the structure of the Australian labour market are again evident.

International Developments

As implied in the earlier discussion, much of the comparative data on welfare state development covers the OECD 'rich club' of nations, most of which have mature social security systems and comprehensive welfare states.[7] One of the great insights provided by comparing the welfare state development of a range of countries such as those belonging to the OECD is that it provides a basis for distinguishing changes that have occurred in response to genera00l economic and social trends from those which reflect specific national circumstances or policies.

The trend towards increased integration of global capital and product (and, in some regions, labour) markets is confronting separate nation states with a more common set of economic circumstances. This has resulted in a growing interest in whether there are any signs of a convergence of policy outcomes or if not, what factors are responsible for the persistence of national differences. Globalisation is creating the conditions for a 'natural experiment' exploring the effectiveness of social policies and programs introduced by national jurisdictions in combating the adverse

6 The estimates shown in Table 1 cover wage and salary earners only and thus do not correspond to those shown in Figure 2 which cover all employed persons, although the differences are again only slight.

7 This is less true of some of the newer members of the OECD (the Czech Republic, Hungary, Korea, Mexico and Poland) although these countries also have welfare states that are, comparatively speaking, well developed.

Table 1: The Industry Structure of Employed Wage and Salary Earners: February 1998

Industry	Wage and salary earners ('000)	Wage and salary earners (%)	Public sector earners as a % of total	Part-time earners as a % of total	Female employees as a % of total
Agriculture, forestry and fishing	5.7	0.1	100.0	4.0	24.5
Mining	78.1	1.2	5.8		10.4
Manufacturing	936.7	13.8	4.8	10.5	26.0
Electricity, gas and water	55.0	0.8	30.9	4.2	14.4
Construction	335.4	4.9	16.8	10.1	12.6
Wholesale trade	466.9	6.9	0.0	16.9	28.9
Retail trade	992.0	14.6	0.0	51.9	52.5
Accommodation, cafes and restaurants	379.6	5.6	0.0	55.9	55.8
Transport and storage	271.2	4.0	20.8	17.2	23.9
Communications services	120.8	1.8	81.2	10.2	32.2
Finance and insurance	266.8	3.9	24.4	18.7	58.1
Property and business services	750.3	11.0	3.6	28.9	45.4
Government administration and defence	350.7	5.2	100.0	16.7	45.7
Education	576.1	8.5	69.1	33.9	66.5
Health and community services	777.2	11.4	39.7	51.9	78.8
Cultural and recreational services	175.9	2.6	13.9	52.4	46.5
Personal and other services	251.8	3.7	34.6	30.3	49.6
Total	6790.1	100.0	21.1	30.9	44.6

Sources: ABS (1998b) *Employed Wage and Salary Earners, Australia*, March Quarter, Catalogue No. 6248.0.
ABS (1998c) *The Labour Force, Australia. February*, Catalogue No. 6203.0.

consequences of international economic trends. Not surprisingly, interest in the use of the OECD social expenditure database in such experiments has increased considerably.[8]

8 It is worth noting at this stage that interest in the OECD social expenditure database among policy analysts and scholars has been strong for most of the period since the OECD released its initial analysis of social expenditure growth (OECD, 1985), even though the database itself was not maintained after the release of that report. It was not until a meeting of OECD Social Policy Ministers in 1992 endorsed the idea that: 'A strong and consistent data base which enables comparative trends to be tracked is an essential contribution to the policy formulation process' (OECD, 1994: 54) that the OECD Secretariat took active steps to revive and update its social expenditure data.

The data themselves formed the basis of a series of background papers prepared for discussion at an OECD Conference held at the end of 1996, the proceedings of which have since been published (OECD, 1997). The data analysed in that report in the papers by Scherer (1997) and Esping-Andersen (1997) cover the main cash transfer programs (old age and survivors' pensions, family benefits, unemployment and related payments, and disability and sickness benefits) as well as health care and other services (services for the elderly and disabled, services for families, active labour market programs and health care and occupational injury provisions; see OECD, 1997, Chart 1.3).[9]

Aggregate social expenditure changes between 1980 - the year in which the OECD Conference on *The Welfare State in Crisis* (OECD, 1981) took place - and 1993, the latest year for which the data are currently available are summarised in Figure 3.[10] Social expenditure grew relative to GDP in all countries except (West) Germany where there was a small decline. The average increase over the period for the 17 countries shown in Figure 3 was from 20.0 per cent of GDP in 1980 to 25.6 per cent in 1993, a good deal of this increase occurring during the recession of the early 1990s. In the decade to 1990, the increase in the average social expenditure to GDP ratio was only around two percentage points (Johnston, 1997: 9). This is well below the 10 percentage point increase experienced on average over the 1960s and 1970s, although the Secretary-General of the OECD acknowledged that this slowing down reflected 'some effort at cost-containment' (Johnston, 1997: 9) on the part of many OECD governments.

In Australia, the OECD social expenditure data indicate an increase from 11.7 per cent of GDP in 1980 to 16.5 per cent in 1992. Although Australia's position in the expenditure ranking moved up one place over this period, the level of expenditure remained consistently well below that in most other OECD countries; in fact, *the Australian social expenditure ratio in 1992 was below that prevailing in 1980 in all but five other OECD countries.*

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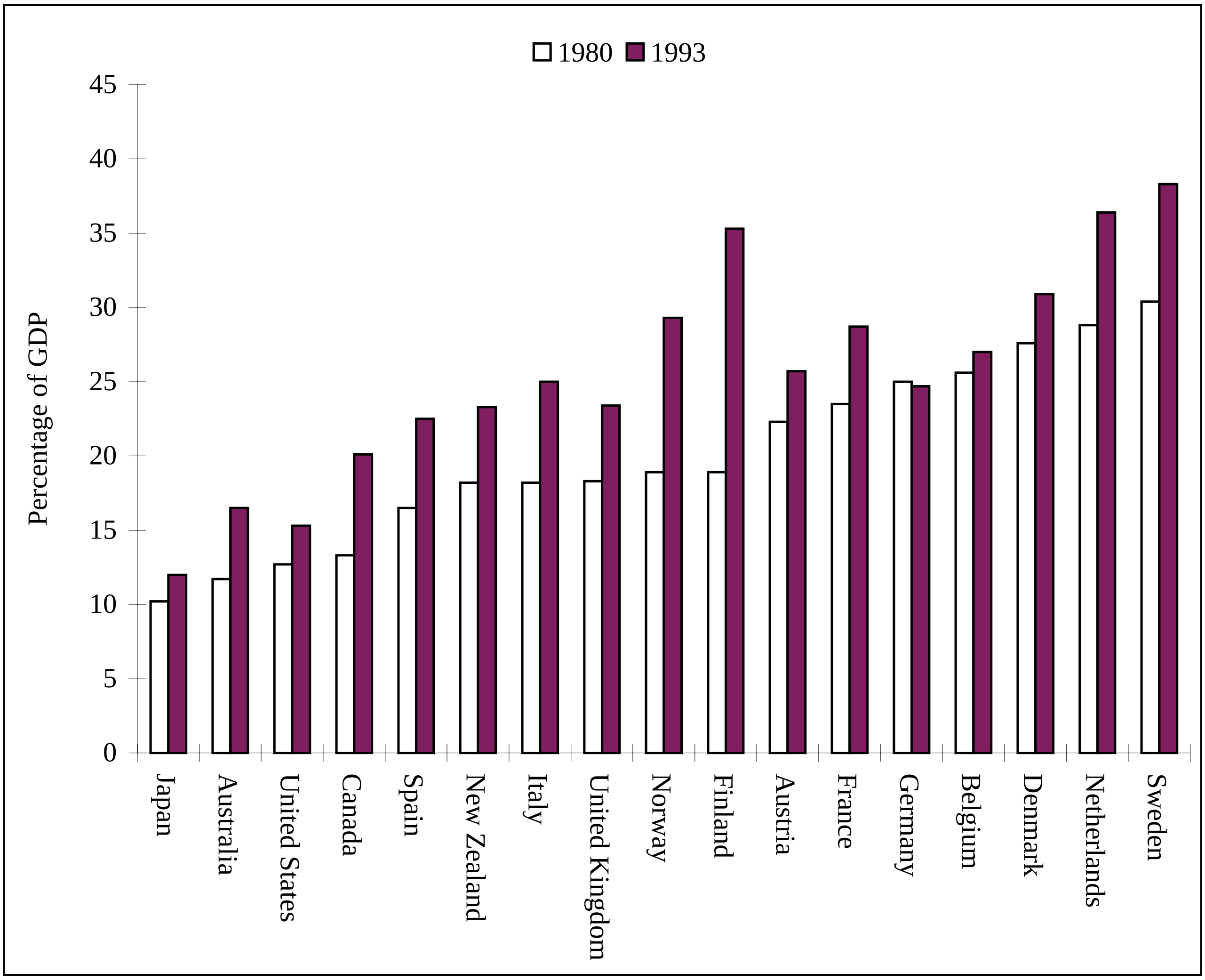
9 In contrast to the Australian data presented earlier, the following analysis of OECD social expenditure data excludes expenditures on housing programs and education.

10 The data for Australia, Belgian, Japan and New Zealand in Figure 3 actually refer to 1992, as later data were not available when the OECD report was prepared.

Figure 3: Social Expenditure in OECD Countries: 1980-1993



Thus despite all the political rhetoric about the need for smaller government and the economic arguments for why this was a necessary precursor to improved economic performance, the trend throughout the industrialised world (at least until 1993) was in the opposite direction. Although this partly reflects the impact of recession, this is not the entire explanation for what happened. Governments may have voiced concerns about the lack of affordability of the welfare state, but have generally been unwilling to translate these words into action.

Table 2 compares the social expenditure levels for each country with the corresponding values for each country of the ratio of total government outlays to GDP and the ratio of total current revenue receipts to GDP. For ease of comparison,

Table 2: The Welfare State and the Size of Government in OECD Countries: 1993 (Rankings in Brackets)

Country	Total outlays to GDP ratio	Social expenditure to total outlays ratio	Social expenditure to total current receipts ratio
		Percentages	
Sweden	71.0 (1)	53.9 (4)	65.1 (4)
Finland	60.2 (2)	58.6 (2)	67.5 (2)
Denmark	58.6 (3)	52.7 (6)	55.3 (8)
Italy	57.4 (4)	43.6 (14)	52.7 (11)
Belgium(a)	55.2 (5)	48.9 (9)	55.9 (7)
Netherlands	55.1 (6)	66.1 (1)	70.1 (1)
France	55.0 (7)	52.2 (7)	58.6 (6)
New Zealand(a)	54.3 (8)	42.9 (15)	46.0 (16)
Austria	53.2 (9)	48.3 (10)	52.4 (12)
Norway	51.0 (10)	57.4 (3)	59.1 (5)
Canada	49.7 (11)	40.4 (16)	47.6 (15)
Germany	49.5 (12)	49.9 (8)	53.8 (10)
Spain	47.6 (13)	47.3 (11)	55.0 (9)
United Kingdom	43.6 (14)	53.7 (5)	65.5 (3)
Australia(a)	37.5 (15)	44.0 (13)	49.2 (14)
United States	33.8 (16)	45.3 (12)	50.7 (13)
Japan(b)	31.7 (17)	37.9 (17)	36.1 (17)

Note: a) 1992

Sources: OECD (1997), *Family, Market and Community. Equity and Efficiency in Social Policy,* Social Policy Studies No. 21, OECD, Paris.
OECD (1998), *OECD Economic Outlook*, 63, OECD, Paris.

countries are listed in increasing order of their social expenditure to GDP ratios in 1993. It is always difficult to draw firm conclusions from these kinds of comparisons because they focus on only one aspect of what is a complex multi-dimensional issue. Levels of government spending and revenues are influenced by a diverse range of factors and the estimates for a single year depend on the specific circumstances prevailing in that year.

Despite these qualifications, Table 2 reveals two important and interrelated aspects of the development of the public sectors of OECD countries during the 1990s. The first is that governments are largest where the welfare state is largest; the second is that the welfare state now absorbs a large proportion of government revenue. Both propositions explain why the welfare state has been at the centre of the broader debate over the size and role of the public sector. As noted by the OECD in the latest issue of the influential *OECD Economic Outlook* in a chapter headed ‘Forces Shaping Tax Policy’:

> Most of the growth in public outlays over the past 30 years has been social spending - both transfers to households and social programmes. There will be pressure in coming years to raise social spending further. Technology and, perhaps, globalisation are tending to increase income inequalities, increasing demands for more extensive income redistribution. In addition, population ageing will in the absence of reforms, raise public spending on pensions and health care. Thus, other ways will have to be found to contain social spending, or further increases in tax revenues will be needed. (OECD, 1998, p. 157)

To understand the pressures on government budgets as a whole, it is thus necessary to analyse their social expenditure developments in more detail.

Analysis of the social expenditure trends at the program level reported by Scherer (1997) shows that, on average between 1980 and 1992, both cash transfers and welfare service expenditures increased by around two percentage points of GDP. Within transfers, the largest increase was on unemployment and related programs, followed by a small increase in old age and survivors’ pensions. Expenditure on family benefits declined slightly on average, while spending on disability and sickness benefits remained stable. On the services side, the main areas of growth were in active labour market programs and health care, while expenditures on services to families were stable and those for the elderly and disabled declined.

Australia experienced a somewhat different pattern of change in program expenditure trends over the same period. The main differences from those for the OECD as a whole on the cash transfer side were the decline in expenditure on old age and survivors’ pensions and the large increase in family benefits. On the service side, Australia experienced large increases in expenditure on services for the elderly and disabled and in spending on health care and occupational injury. Amongst the many reasons for these differences are the tighter targeting of the Australian age pension following introduction of the assets test and the expansion of spending on services for the elderly and disabled populations under the Home and Community Care (HACC) Program since the mid-1980s.

Although the details of the Australian social expenditure experience differ from those of the typical OECD trajectory, one trend that has been a feature of recent welfare state development in many countries is the switch in emphasis from cash transfers to services. Many factors underlie this switch, including:

- the continued increase in health care spending due to population ageing, despite reforms aimed at greater control of health budgets in the longer run;
- the trend towards linking the payment of cash transfers to the provision of services which facilitate labour market reintegration (e.g. in the fields of child care and disability programs);
- increased use of direct labour market and training services in the switch from 'passive' to 'active' assistance to the unemployed under the umbrella of the 'active society' reform agenda, combined with reliance on a case management to improve the targeting of assistance; and
- increased provision of community care services for the rapidly increasing numbers of frail elderly.

Another possible factor (though not one which can be supported by the evidence at this stage) is that governments may perceive the provision of services which are tied to the relief of specific needs as being more acceptable to taxpayers than the payment of transfers which give greater discretion to welfare recipients in deciding for themselves how to allocate their resources to satisfy their needs.

Why these trends are occurring will have important consequences for future changes in the structure of the welfare state. This, in turn, will impact upon the employment consequences of welfare state development, because welfare services generally are much more labour-intensive than transfer programs.[11] If the trend from transfers to

11 This feature of services saw the development of the 'Baumol effect' (named after its originator) in which the relatively slow growth of service sector productivity lead to a 'relative price effect' which partly explained the growth of social expenditure as a percentage of GDP (OECD, 1985). It also resulted in a concerted effort to restrain the growth of wages in the public sector (which were the largest component of service expenditures) during the 1980s (see Oxley et al., 1990).

services within the welfare state continues (for the reasons alluded to), it will have a major bearing on the human services consequences of welfare state development. Put crudely, the argument developed here suggests that the prospects for those involved in the delivery of welfare services may be somewhat brighter than those of the recipients of some cash transfers delivered by the welfare state.

Of relevance in this context is Scharpf's recent analysis of social policy sustainability (Scharpf, 1997). He distinguishes three different welfare state models within the OECD. The 'Scandinavian model' emphasises the provision of an extensive range of publicly financed welfare services within a framework characterised by high levels of public expenditure and high taxes. The 'Continental model', in contrast, emphasises the payment of generous cash transfers in a medium-sized welfare state with low employment as a result of the absence of Scandinavian levels of welfare service employment, combined with high benefit replacement rates financed by payroll taxes. This model, Scharpf argues, is a recipe for the creation of unemployment - particularly long-term unemployment. The third, 'American model' is characterised by low levels of publicly financed welfare services, minimal unemployment benefits and fewer labour market interventions, leading to an extensive private market for services and a labour market characterised by high employment and high inequality.[12]

The question that Scharpf poses for Continental Europe is whether it should attempt to move towards the American or Scandinavian model in an attempt to reduce unemployment. The ability to move far in either direction is limited. Deregulating the labour market in order to assist the long-term unemployed would involve cutting payroll taxes and unemployment benefits so as to expand employment opportunities and lower the reservation wage of the unemployed. Prevailing social insurance schemes provide little room to manoeuvre here. Opposition to tax increase is the main obstacle to following the Scandinavian route.

Scharpf proposes a third option, involving wage subsidies combined with reductions in payroll taxes on lower paid jobs as a viable route back to full employment for Continental Europe. This option would leave public welfare service employment low relative to Scandinavia, but part of the difference would be absorbed by an

12 Australia appears to lie somewhere on this spectrum between the Continental and the American models.

expansion of private services, as currently occurs under the American model. This appears to be the kind of option currently being pursued in Australia. In this scenario, the future again looks relatively bright for human welfare services, whatever the role of the public sector in providing and/or funding them.

Before leaving this discussion of welfare state comparisons, it is instructive to consider what is currently happening to welfare systems (the term ‘welfare state’ is not appropriate) in some of the countries of East and Southeast Asia. As Australia’s economic focus switches from Europe towards the Asia Pacific region, so too should our social policy focus, if only because increased economic regional integration will have social consequences that will need to be studied in a regional context.[13]

One of the main features of welfare provision throughout most of Asia is its reliance on the family as the primary vehicle for the delivery of welfare services (and, in many instances, cash support also) as opposed to either the public or private market route that has been adopted in the OECD. This suggests that the extent to which Australian welfare is subject to Asian influences over the coming decades is another factor that will influence the future of our human services sector.

There are currently two main obstacles to comparing Australian welfare with its counterpart in most of Asia: cultural differences and lack of data. In focusing on the latter of these, the significance of the former should not be forgotten. Information on welfare spending by government in Asian countries is, at best, rudimentary. That which is available also needs to be heavily qualified because of the important role played by ‘the informal sector’ in the provision of welfare - not only within the family but also because of the size of the non-waged sector in many Asian countries.

Despite these difficulties, the task of comparing Australian and Asian welfare systems is important, if only because it heighten awareness of the need for better data. Comparative data published by the World Bank in its *World Development Report* (World Bank, 1997) is a useful starting point, although those data are restricted to expenditures on social services (defined to include education, health, social security, welfare, housing and community amenities) by *central government* only.

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13 I have recently received a grant from the Academy of the Social Sciences in Australia to conduct a Workshop in 1999 on ‘Social Security and Social Development in East and Southeast Asia’.

These data indicate that, in 1995, 58 per cent of Commonwealth outlays in Australia were devoted to social services. This is virtually identical to the figure for Thailand in the same year, less than the 70 per cent recorded for Indonesia, but well above the figures for Singapore and Malaysia (both 48 per cent), Korea (42 per cent) and the Philippines (26 per cent). When expressed as a percentage of GDP, the comparisons change because of differences in the size of central government in each country. The Australian figure of 17 per cent compares with 11 per cent in Indonesia and Malaysia, around seven per cent in Singapore and Korea, six per cent in Thailand and five per cent in the Philippines.

Social expenditures by central government in Australia are thus higher than in many Asian countries, although the differences are not that large - not greatly different, for example, than those between Australia and many of the OECD countries discussed earlier. Of course, little is known about how the Asian financial crisis has affected the development (or even the retention) of social programs in the countries most affected. There is evidence that social security reforms have been delayed in some countries and put on hold in others, but it is still too early to know whether these effects will be permanent or not. To the extent that formal state provision of welfare services in Asia expands, there will be a potentially important role for Australian educators and policy makers in providing increased levels of training and advice.

The process of welfare reform had been gathering pace in many Asian countries prior to the onset of the current financial crisis in late 1997. However, it is not correct to describe the countries of Asia as sharing a common approach to welfare provision. The most obvious feature of the current social security arrangements in the region is their diversity. There is no single ‘Asian model’ of social policy (though writers such as Goodman, White and Kwon (1997) have identified an ‘East Asian welfare regime’), but the need for reform reflects a broad set of pressures and concerns relating to economic and social development.

Along with most other countries, the populations of most Asian countries are ageing and economic forces associated with industrialisation and urbanisation are posing threats to traditional family-based welfare arrangements. In addition, as Beattie (1997: 3) has noted: ‘the need for formal social protection is growing as more and more people in the region are being drawn into wage employment of one sort or another’.

The combination of population ageing and economic development has placed pension reform firmly on the policy agenda in Hong Kong, China and Thailand, while Japan is in the process of introducing a form of long-term care insurance in response to the very rapid ageing of its population. Welfare reform is also on the reform agenda in Korea, where the Ministry of Health and Welfare released a White Paper earlier this year to assist in the process of ensuring that Korea can meet the challenges thrown up by *Segyehwa* (or globalisation) by 'drastically changing Korea's existing political and socio-economic institutions to make them more compatible with today's rapidly changing world' (Ministry of Health and Welfare, 1998). Keeping track of these developments is of more direct interest to Australia than keeping statistics showing our position in the OECD social spending league table up to date.

3 The Future of the Welfare State

The future of the welfare system and government's role in it are topics of intense policy interest throughout the world. As noted earlier, the recent history of the welfare state has been marked by a climate of 'perennial crisis' and the responses to this have important implications for its future. The set of responses currently being considered have been shaped primarily by budgetary concerns: what needs to be done to reduce the government's role in the provision and funding of welfare and, with it, the size of the welfare budget?

It is difficult to imagine a 'future of welfare' scenario which is not heavily conditioned by the twin imperatives of fiscal constraint and budgetary control. The terms of this debate have been dominated by the critics of the welfare state, who have argued that since *some* of the arguments put forward in defence of the welfare state reflect sectional interests, this is true of *all* arguments in support of welfare. This has allowed the debate to concentrate on the supposedly technical issues of efficiency, cost and effectiveness and to by-pass discussion of the principles of justice, rights and morality on which the welfare state and civil society rest.

The following discussion focuses on three of the main crises currently perceived to be driving the welfare state reform agenda: the demographic crisis, the crisis of affordability and the crisis of legitimacy. Although attention is concentrated on the implications of each for state welfare, their overall impact on human services may be different as this will also depend upon what happens to private sector demand. It has already been demonstrated that any decline in public involvement in human services could be offset by an increased level of private involvement, which implies that the future of human services, while linked to the future of the welfare state, is also in important ways independent of it.

The Demographic Crisis

The more that has been written about the implications of population ageing for the welfare state, the less of a crisis it appears to be. Australia has put considerable effort into exploring the budgetary implications of the projected trends in population age structure by producing a set of statistical calculations showing the impact of demographic change on expenditure levels given existing patterns of cost and service use. Such calculations can be a useful first step in understanding some of the consequences of population ageing and thinking more constructively about how to respond to them. In practice, however, the statistical projections have tended to be accepted as ‘facts’ and the debate has been hijacked by those who see in demographic change an opportunity to wind back the ‘entitlement culture’ that has been promoted by the welfare state.

An important, though neglected, aspect of this debate involves understanding the causes of the projected change in demographic structure. The most important longer term structural determinant of the ageing of the population is the decline in fertility. Yet most of the ‘ageing crisis’ literature ignores this aspect and with it the possibility that the reforms introduced in response to ageing may exacerbate it by causing further declines in fertility. This point has been emphasised by McDonald (1997), whose penetrating analysis of the recommendations developed by the National Commission of Audit leads him to conclude that they are likely to add to the rate of population ageing by privatising the costs of child-bearing within the family, leading to a further decline in fertility.

It is also worth noting that projections of the growth in public expenditure are very sensitive to some of the assumptions on which they are based. Recent estimates of the impact of ageing on health expenditures produced by the Economic Planning Advisory Council (EPAC, 1994) differ considerably from those produced by the National Commission of Audit (NCA, 1996).While the EPAC projections indicate an increase in the Commonwealth health budget of around two percentage points of

GDP by 2031, the NCA estimates imply an increase of over six percentage points of GDP - a threefold difference), the differences depending upon the assumption made about the future growth of real health spending per person (Podger, 1998).

More significant is the fact that *population ageing itself contributes rather little to the projected growth in government outlays in all of the models*. What matters is not so much the rate of population ageing itself, but the assumed growth of per capita outlays and the performance of the economy, in particular what happens to productivity growth, which affects GDP growth and thus how large government spending is relative to GDP (Podger,1998: 8).

This point has been made by the OECD, who note that:

> … it would only be necessary to hold growth in per capita real public health spending to around 1/2 to 1 per cent lower than productivity growth in order to offset the impact of ageing on public health spending. (OECD, 1995: 40)

In a similar vein, Mitchell (1996) has shown that it is possible, by raising the pension age from 65 to 70, to offset most of the effect of ageing on the ratio of older to younger groups in Australia over the next 30 years. Achieving these kinds of outcomes may present OECD governments with some difficult political challenges in introducing the necessary reforms, as Johnson (1996) has argued, particularly given the growing electoral influence of the increasing numbers of older voters, but this hardly constitutes a crisis.

The characterisation of population ageing as a ‘looming crisis’ by bodies like the NCA and the World Bank (1994) also ignores the positive aspects of ageing. People are living longer and enjoying more years of healthy living, with fewer deaths occurring at younger ages and with more women exercising choice over when and whether to have children (Podger, 1998). These are all indications of higher living standards and increased choice - hardly cause for despair.

It may well be necessary to make adjustments to current policy parameters in response to the ageing of the population, but the magnitude of the policy (as opposed to the political) task should not be overstated. There is a strong case for reviewing the age of entitlement for the pension which was established in an era when both health status at older ages and life expectancy were much lower than they are now.

Policies which promote labour force participation among older people generally also help to offset the consequences of ageing by reducing the number of pensioners while simultaneously increasing the number of workers. As long as there is sufficient work available to absorb the increased supply of labour, the degree of change can be set so as to offset entirely the budgetary consequences of increasing numbers of older people.

The Crisis of Affordability

Can we afford the welfare state? This question has been driving the policy reform agenda for most of the last two decades and it underlies the concern over the ageing of the population. The need for social policy to conform with broader (and often harsher) economic realities is evidenced in the rather ominous remarks of the new OECD Secretary-General who said when introducing the recent OECD Conference, Beyond 2000: The New Social Policy Agenda:

> Today, we find that public expenditure on social programmes and the control of public spending are at the heart of daily political debate in parliaments and among the public … it is encouraging that, despite the political difficulties, there is a broad consensus among member countries around an economic strategy of prudent macroeconomic policy, including fiscal consolidation, structural reform and market liberalisation … The language of sacrifice is not designed to win hearts and minds. The message we would like to promote from the OECD is that bringing public-sector deficits and debt under control through fiscal consolidation is not an alternative to policies to promote social protection and social well-being: on the contrary, it is a necessary condition for maintaining such policies in future years. (Johnston, 1997: 9)

This is an old message and a dangerous one. It is premised on the notion that we must ‘get the economy right’ before we can afford to address distributional issues or other social policy concerns. We must first bake the cake, then worry about how to cut it up. It adopts a sequenced view of the world that is at odds with a reality in which economic incentive and social protection are interconnected in many complex ways.

In practice, as has already been demonstrated, while most governments have attempted to control the growth of welfare state spending, few have succeeded in reducing the size of the welfare state relative to the economy as a whole. However, one factor that has emerged in the affordability debate is the notion that the direct financial cost of welfare is only one aspect of affordability. A second dimension of affordability relates to the 'moral hazards' that arise from the changes in economic and political behaviour that are a consequence of welfare policies and programs and how they are financed. These costs arise when incentive structures distort choices in labour and capital markets in ways that are detrimental to economic growth and thus to the rise in material living standards. These effects are potentially serious because the performance of the economy ultimately determines what the welfare state is capable of; income must first be generated through the market before it can be redistributed by the state.

This line of criticism of the welfare state has been voiced by an increasing number of its critics who have seized on the collapse of communism to argue against all forms of collective activity. Typical among these is the British economist (and renowned biographer of Keynes) Robert Skidelsky, who has recently argued that:

> … the Welfare State, setting out to minimise moral hazard through social insurance, has made it endemic. Collectivism carried to extremes creates a moral hazard problem so great that, while it can be allayed for time by terror, it eventually brings the system crashing down … Patchy collectivism of the kind practised in the Western democracies keeps some groups poor and incompetent, and makes every one else less well off than they could otherwise have been. Even in our much wealthier societies governments are running out of the resources needed to maintain the poor in the poverty to which thy have become accustomed - and their number is still growing. (Skidelsky, 1997: 10)

It is difficult to know what to make of such ill-informed comment, although it should be acknowledged that the opening up of the world economy to competition has undoubtedly increased economic insecurity in all nations and such insecurity provides fertile ground for the planting of radical solutions, irrespective of their merit.

While economists emphasise the benefits of competition as a spur to enterprise, profitability and efficiency, there are also losers from the process of competition (witness the number of small businesses that fail). As more people become exposed to the threat of competition, it is inevitable that economic insecurity and perceptions of vulnerability will rise. In order to survive in this environment, the welfare state must adapt to the changing labour markets associated with it.

This is the main message to emerge from the OECD analysis reported by Scherer (1997), who argues that economic transformation is leading to a divergence of economic interests between the funders and beneficiaries of social transfer programs, at least in Europe where employment-based social insurance schemes provide cover to two-income couples that they do not need while simultaneously preventing no-earner couples from establishing an entitlement. Although these arguments are less relevant to means-tested social assistance of the Australian variety, here too there is an issue of how welfare states should respond to the increased inequalities being generated by market forces.

As Gøsta Esping-Andersen has argued:

> Popular discourse has already recognised the arrival of a new class of losers. Witness labels such as the ‘A-team’ and ‘B-team’, or the new underclass. Behind such labels lurks the idea that there is a class of marginals trapped in lifelong underprivilege. But whether this is true or not remains an open question. It is undeniable that bad jobs, low pay, unemployment and poverty afflict more and more people. Yet if people’s experience of marginality and want is only temporary, life-chances will probably not be seriously impaired ... We face a real crisis of social polarisation only if the losers of today are losers for life, and if they pass their underprivilege on to the next generation. (Esping-Andersen, 1997: 64)

Avoiding unacceptable polarisation is the main contemporary challenge facing the welfare state. The key issue is how this can be achieved within a climate of increased global competition and in the context of an increasingly diversified labour market and a more complex set of working arrangements among family and household structure that is also undergoing rapid change. There is an increased need for welfare programs which offset income falls and facilitate integration back into the labour market, but at the same time the interventionist sentiment which underlies such initiatives is at odds with the liberal market philosophy that gives rise to the need for them in the first place. The welfare state is being squeezed between these contradictory forces.

One aspect of the growing need for state support in Australia can be summarised by looking at the trend in poverty over the 25 years since the Poverty Commission first documented its dimensions in the early-1970s. Since then, the poverty trend has been tracked using the Henderson poverty line by researchers within and outside of government, with the most recent estimates being released in June this year by the Australian Bureau of Statistics (ABS, 1998a). These trends, summarised in Figure 4, show a doubling of the overall poverty rate from 10.2 per cent in the early 1970s to more than 20.5 per cent in 1995-96, most of this increase occurring since 1980.

Figure 4 also shows that there are large differences in both the level and change in poverty among different demographic groups. Most noticeable among these differences is the rapid growth in poverty among younger single people since 1980, the recent increase in poverty among couples (with and without children) and the sharp decline in poverty among sole parents in the 1990s. Some of these differences reflect labour market changes, specifically the rise in unemployment, while others are a consequence of policy changes which, contrary to popular belief, are not always ineffective in the fight against poverty.

If an increasingly competitive market economic environment is increasing inequalities in the market incomes of individuals, social trends may be reinforcing the effects of this on inequality in the disposable incomes of families. One of the most significant labour market trends is the growth of the ‘two-earner couple’ which, in combination with a growing number of families with no access to labour market income is causing greater polarisation of the incomes of working age families. Table 3 provides information on the relationship between the distribution of work and the distribution of poverty among Australian couples aged 25 to 54 using data from the 1995-96 Survey of Income and Housing Costs. Although the growing significance of two-earner couples is clear, the estimates in Table 3 indicate that it is not so much access to two incomes that significantly reduces the risk of poverty among couples,

Figure 4: Trends in Australian Poverty: 1972-73 to 1995-96

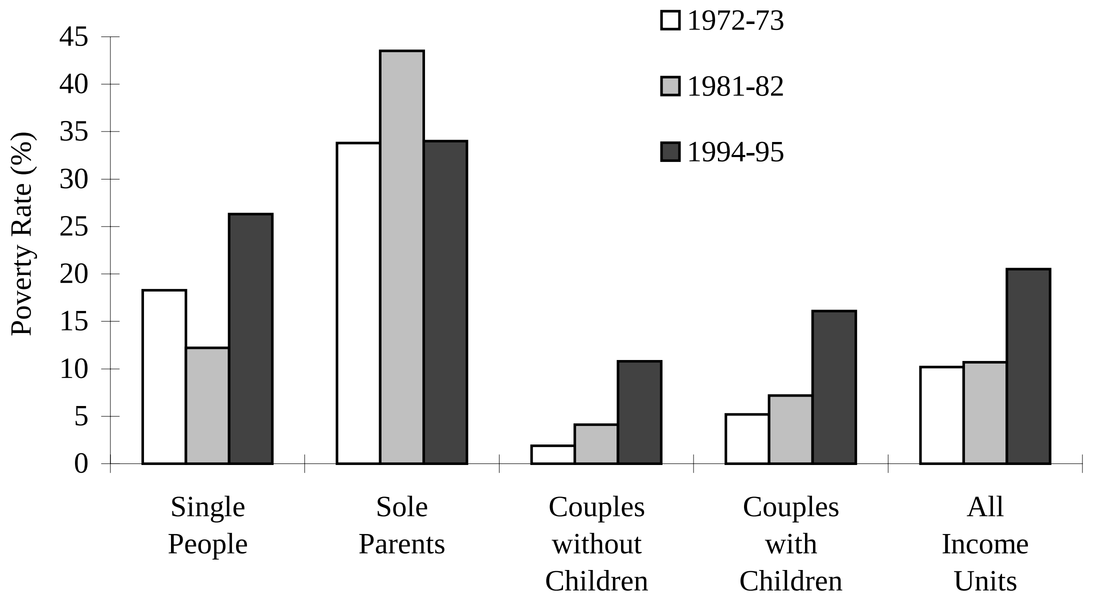

Table 3: The Distribution of Work and the Distribution of Poverty Among Working Age (25-54 Years) Couples: 1995-96

Earner Status of Partners[a]	Percentage of All Couples	Poverty Rate[b] (%)	Percentage of All Poor Couples
(O,O)	8.8	50.0	45.9
(P,O)	2.7	41.3	11.6
(F,O)	29.5	8.4	25.9
(P,P)	0.8	24.6	2.1
(F,P)	25.3	3.7	9.8
(F,F)	32.9	1.4	4.8
Total	100.0	9.6	100.0

Notes: a) Earner status at the time of the survey. Estimates exclude the self-employed. Key: O = no earnings; P = part-time earner; F= full-time earner

b) Poverty status has been based on disposable income over the previous (1994-95) financial year.

Source: ABS 1995-96 Survey of Income and Housing Costs, confidentialised unit record file.

but rather the access to at least one full-time job. Part-time work may be what many Australians want, but full-time work remains what they need to avoid poverty.[14]

Returning to the theme of the affordability of the welfare state, there are two important lessons to emerge from past social policy experience. The first is that the welfare state can promote economic change by reducing the economic risk of failure among the general population. Where there is a strong social safety net and programs that assist those who are required to suffer the adverse consequences of economic change - often simply because they were born at the wrong time or are living in the wrong place - the willingness to accept change will be greater. In this sense, the view that the welfare state is an obstacle to economic growth is simply incorrect.

The second lesson of historical experience is that welfare programs can cause behavioural changes which may distort or even subvert their effectiveness. Although much of the overseas empirical evidence indicates that the behavioural responses to tax and transfer programs are generally not as large as many of the critics of the welfare state allege, rather little is known about the nature or size of such effects in the Australian context. One might have thought that in designing Australia's extremely complex and heavily targeted social security system, much effort would have gone into identifying the extent and nature of any labour supply (and other) disincentive effects so as to minimise them. Not so. Far from being experts in the field, Australia has almost no research into the *actual* disincentive effects of tax and social security, as distinct from the *potential* effects as reflected in the very complex calculations used to derive effective marginal tax rate schedules or poverty traps.

The welfare state continues to grow despite claims that it is no longer affordable. Australia remains towards the bottom of the international social expenditure league table and still spends much less on its social programs than most European countries were spending two decades ago. The fact that Australia spends less than other countries does not, of course, mean that we are willing to pay the taxes needed to fund what we do spend. We may spend less than others but still more than we would like to. However, the fact that others already spend a good deal more than us suggests that there is no inherent reason why we cannot afford the costs of welfare and must therefore cut back the welfare state.

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14 Even full-time work, however, seems to be becoming less effective at preventing poverty (Eardley, 1998).

The Crisis of Legitimacy

The claim that the welfare state is in a crisis of legitimacy is related to the affordability issue, as writers such as Ploug (1995) have noted. The focus of much of this literature is on the politics of welfare and how public opinion and interest group politics affect electoral support for welfare programs. Newton (1998) describes the legitimacy crisis in the following terms:

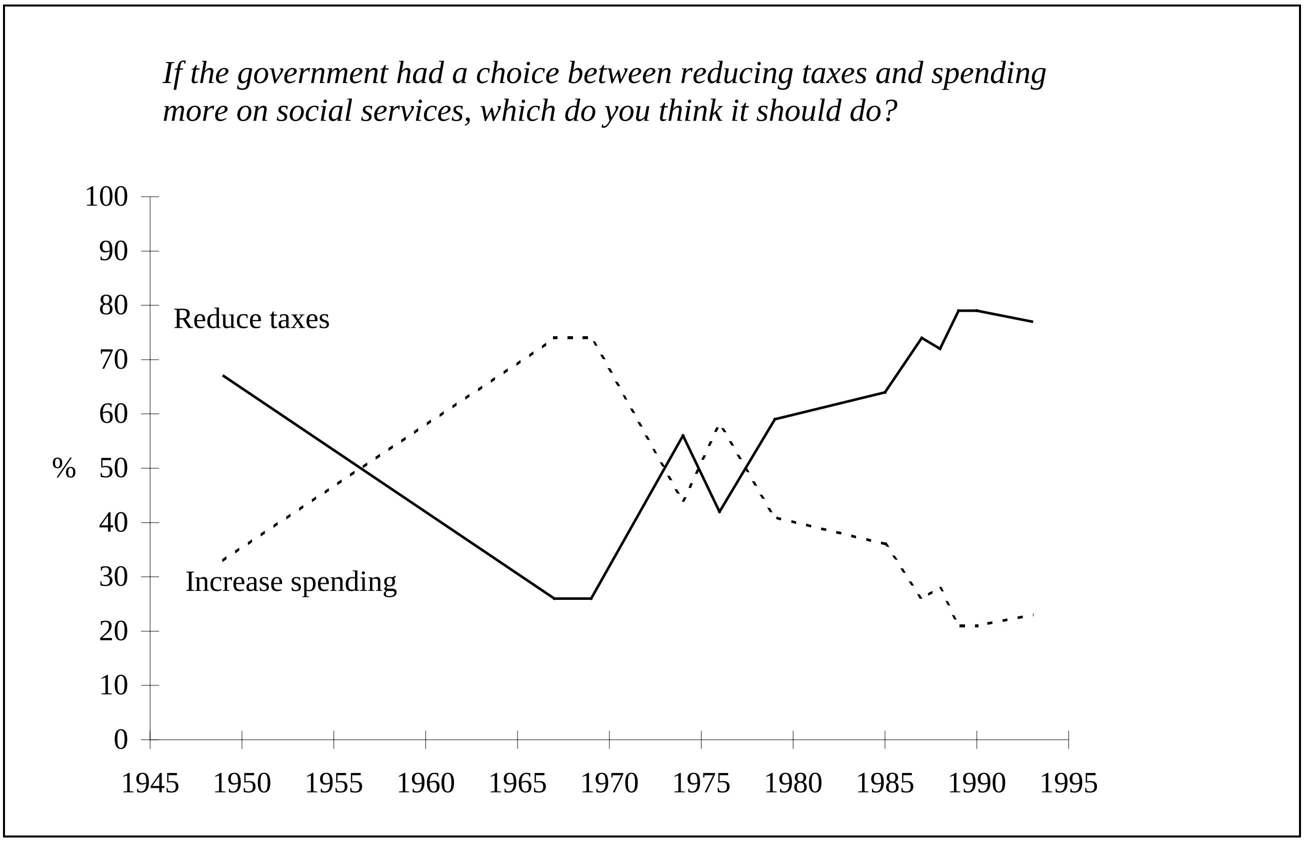
> There are different forms of legitimacy crisis theory but basically the argument is that the modern state is faced with contradictory demands. It must create the conditions for profitable business by investing heavily in infrastructure, while keeping taxes down. It must also legitimize itself and maintain the conditions of social order by providing welfare services. It cannot possibly meet these contradictory demands and so it increasingly alienates both its capitalists and its workers. As a result, public opinion turns against the state, and legitimacy crisis results. (Newton, 1998: 106)

An obvious question to ask in this context is whether or not it is true that public opinion *has* turned against the welfare state. Evidence on this issue has generally been derived from public opinion surveys which seek to determine the degree of support for state welfare by asking respondents whether they favour more or less welfare spending. The answers to such questions often tend to indicate a high level of support for state welfare, although critics have pointed out that since respondents are not confronted with the fact that higher levels of spending must be paid for, the findings may have little practical relevance. To quote Skidelsky again:

> The question is: if majorities of voters favour higher taxes to pay for improved social welfare, why are all EU countries running persistent budget deficits? Why don’t politicians raise the necessary taxes? True enough, taxes have gone up, but spending has gone up even more ... A reasonable conclusion is that general expressions of support for higher taxes do not correctly identify the personal sacrifices people are willing to make. This willingness is more accurately reflected in the privacy of the polling booth. (Skidelsky, 1997: 70)

Figure 5 summarises the Australian public opinion evidence of the last fifty years. After a dramatic change leading up to the mid-1960s, the percentage favouring lower taxes has increased substantially since then, while support for higher spending on social services has declined. It is difficult to avoid the conclusion that support for the welfare state has declined, as more Australians prefer lower spending accompanied by lower taxation. The best that can be claimed is that support for higher spending has remained steady since the mid-1980s and shown a slight increase in the 1990s.

Figure 5: Public Opinion on Taxes and Spending on Social Services



Other public opinion research has come up with somewhat different findings. A study commissioned by EPAC before it was absorbed into the Productivity Commission first gauged the overall degree of support for tax increases by asking whether people were prepared to pay higher taxes on the condition that everyone else would also have to pay the changes they nominated (Withers, Throsby and Johnston, 1994). The authors found that 58 per cent would be prepared to pay 'a little more', 23 per cent were prepared to pay 'whatever was required', while only 17 per cent were 'not willing to pay more' Further analysis revealed that respondents were willing to pay slightly more for education, about the same for health care, slightly less for family assistance and considerably less for unemployment programs.

In a somewhat similar vein, a study of public opinion on tax and social spending conducted earlier this year found that there is strong support for modest tax increases to fund higher levels of social expenditure. Just under 1000 people over 18 were asked whether they thought that increased spending accompanied by increasing income tax 'by one or two cents in the dollar' was desirable. The responses revealed that the percentages favouring such a change were 49 per cent (in the case of spending on education), 48 per cent (health and aged care), 42 per cent (families in need), 39 per cent (job training for the unemployed) and 37 per cent (the environment) (Baldry and Vinson, 1998, Table 1).

These studies appear to contradict the evidence summarised in Figure 5. This may partly reflect a change in public opinion, but it also suggests that the methodology itself may not be suitable for trying to answer these kinds of questions. In practice, voters are rarely presented at the polling booth with the black and white options they are asked to choose between in public opinion polls. The median voter theorem also indicates that the policy platforms of the major political parties are likely to converge as each seeks to identify the electoral preferences (and support) of the median voter. In addition, the outcomes of actual elections do not depend on views about taxes and welfare spending alone, so that it is difficult to interpret the evidence that emerges from 'the privacy of the polling booth'. And in any case the fact that (aside from the Medicare levy) taxes are not hypothecated means that it is not possible to guarantee that increased tax revenue will be used for specific purposes. People may thus be prepared to pay higher taxes if they could *guarantee* that this would result in higher welfare spending, but are against paying higher taxes in exchange for a *promise* of increased welfare.

For all of these reasons, the relevance of public opinion evidence to the 'legitimacy crisis' issue may, at best, be only marginal. This does not mean that legitimacy itself is unimportant, only that it may need to be considered in other ways. In particular, the ways in which governments attempt to identify, publicise, negotiate and implement their welfare reforms will have an important bearing on the eventual outcomes. As Esping-Andersen (1997) has noted, there are important lessons to be learnt from comparing how different governments have attempted to redraw the welfare contract in response to economic and social changes. How the alternative reform options are presented and negotiated in the public arena will have important effects on their legitimacy.

4 Concluding Remarks

The main conclusions of the above discussion can be summarised as follows: although the welfare state is no longer growing at the same rate as in the 1960s and 1970s, it is still expanding in most OECD countries, including Australia. Within that overall growth, there is an emerging tendency for expenditure on welfare services to grow faster than expenditure on income transfers. This partly reflects the impact of demographic change - particularly the age-sensitivity of health and aged care programs - but it may also reflect the trend to tie eligibility for transfer payments to rules that require a greater role for human services. Australia remains at the bottom of the OECD social expenditure ranking, with a level of spending relative to GDP similar to that in the United States and between that in Europe and Asia.

The fact that the welfare state has withstood the mounting pressures of the last two decades suggests that its future is guaranteed. This does not mean that the size and structure of welfare programs will not continue to be subject to intensive scrutiny from the central agencies of government; Departments of Finance will not retreat easily from the momentum for welfare restraint that has built up over the 1980s and 1990s. Concerns over moral hazard will continue to promote a climate characterised by benefit targeting and efficiency reforms motivated by the imperative to reduce costs. The increased role of market forces will also see an expanded role for choice in all aspects of public sector activity (though not necessarily for the recipients of government transfer payments). These factors will ensure that the future of welfare will be one in which market forces will play an increasing role in how welfare is organised and delivered.

Although the future of the welfare state has important consequences for the future of human services generally, they are not inextricably linked. Australia has a long tradition of non-government involvement in the provision and funding of welfare and the move to privatise elements of the welfare state will almost certainly further weaken the dependence of the ‘human services industry’ on the welfare state. Present trends suggest that the prospects for the future of human services may be as bright as those for the welfare state are bleak. Whether Australia heads towards the

American or the Scandinavian or the Asian model of welfare, the human services sector as a whole will expand, although how the balance between public and private involvement will change is less certain.

Within the broad parameters of the policy agenda set by these factors, many other pressures will influence the future course of the welfare state. The extent of some of these (e.g. population ageing) are currently known with reasonable certainty, although even here much of the attention has focused on a limited aspect of the issue. The impact of others will depend on forces that are difficult to predict and thus remain largely uncertain. The perennial 'crisis of the welfare state' reflects its importance in the budgets of governments and the lives of citizens. Those who use the lexicon of crisis are generally trying to generate support for the need for change. The issue for the welfare state is how far it can embrace internal change without undermining its role as a buffer against external change for those who are experiencing it. As the recent economic experience in Asia has demonstrated, unpredictable events can have a far greater impact than those we are aware of.

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