

A Common Payment

Simplifying Income Support for People of Workforce Age

Policy Discussion Paper No.7 July 1995

Department of Social Security

POLICY DISCUSSION PAPER NO.7

**A COMMON PAYMENT?
Simplifying Income Support for People of Workforce Age**

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JULY 1995

Australian Government Publishing Service, Canberra

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1. INTRODUCTION

Australian income support for adults is divided into a number of payment types. From the two types introduced in the Old Age and Invalid Pensions Act 1908, the number increased to around twenty by July 1995. Twenty years ago, the Henderson Commission observed that:

As further legitimate reasons for non-participation in the workforce have been recognised, further categories have been added. Each new category has tended to include a smaller number of people than previous categories, and the criteria by which it is demarcated have tended to be less satisfactory from an administrative point of view. Worse, there has been a time lag in the recognition of new categories of disability, and much suffering in the meantime.¹

There are various pressures on governments to introduce new payments. One is the pressure to target eligibility more tightly to ensure that taxpayers' money is spent on those with a genuine need. Another is the desire by certain groups for recognition of their claims and dissociation from other social security clients.

The payment types differ by their eligibility criteria, which describe categories of people who are judged unable, or are not expected, to participate in the labour force or who are unable to find employment. Eligibility for some payments is limited by sex or marital status, based on the historical role of married women as financially dependent on their partners. The payments can be grouped into:

- **activity-tested payments**, which are basically open to anyone who is able and willing to look for full-time work; and
- **non-activity-tested payments** for specified groups who cannot or are not expected to work.

The second way that claimants are categorised is on the basis of need, to determine the amount of assistance they are paid. The rate categories are based on age, marital status, dependent children, housing costs and in some cases level of disability. The major rates are standard across payment types, except for single people without dependants, who are paid less on benefits² than on pensions, and some groups of young people.

¹Commission of Inquiry into Poverty, Poverty in Australia, First Main Report, Vol. 1, AGPS, Canberra, 1975, p. 36.

²In this paper, the term "benefit" is applied to Job Search, Newstart, Youth Training, Sickness, Partner, Parenting and Widow Allowances. The term "pension" applies to the other payments providing income support for adults. "Income support" includes pensions and benefits but not family payments or other supplementary payments.

The third major classification in determining entitlement is by income and assets, to target assistance to those without sufficient other means of support. The income and assets tests vary between pensions and benefits. They also vary between single people and couples, and sometimes by the number of children and housing status.

Why do we have a range of payments instead of a single payment type? Is it better to have a system of payments targeted to specified circumstances or are equity and efficiency reduced by too many rules? What assumptions are used to determine who is assisted, how much assistance they should receive and under what conditions? What other structural models are there to achieve the objectives and what would be their implications?

This paper takes up these questions as they apply to people of workforce age ³, looking at the objectives of the existing structure in Part 2, background and comparison with insurance-based models in Part 3, issues arising from a categorical structure in Part 4, a range of models for a single payment in Part 5, and possibilities for rationalisation within the current structure in Part 6. Part 7 draws some general conclusions and identifies key issues for further work.

The paper considers income support structures in a broad sense, within the existing parameters of a flat-rate government funded system. Insurance-based earnings related systems are not considered. The various models considered are, in order of simplicity:

- **a basic income** - or universal, non-means-tested, unconditional payment;
- **guaranteed minimum income** - or means-tested, unconditional payment;
- **a conditional minimum income** - or means-tested payment subject to an activity test for some groups of recipients;
- **a rationalised categorical system** - or simplification of the existing system; and the present multi-category system.

The relative merits of these models are determined by reference to five basic questions, which determine the degree of categorisation:

Should all Australians (or all adult permanent residents) be eligible?

³Workforce age is 16-64 years for men and 16-59 years for women. There are different policy issues for those over workforce age who already have a single payment based on need.

If anyone is excluded, on what grounds? The present criteria are not designed to include all residents on the basis of need. If a more inclusive income support system is desirable, then we should explore simpler, generic rules for granting assistance.

Should activity tests be retained?

If so, there must be some way to distinguish between those who are able and obliged to meet them and those who are not.

Should people with different needs receive different levels of assistance?

If so, we need to retain a system of categorising by need.

Should assistance be means tested?

If so, we need a fair and equitable system to assess people according to their means.

Should assistance be based on the individual, the couple or the family?

For people with partners, the present system assesses eligibility, needs and means on the basis of the couple. This contrasts with the income tax system which assesses individual income.

The objective of this discussion is to look for ways to improve simplicity, equity and flexibility in responding to recipients' needs.

Greater **simplicity** would increase public understanding and acceptance of the social security system and should improve administrative efficiency. While the structure needs to meet different customer needs and target resources, there are numerous instances of apparently unnecessary complexity that have occurred because policy has been developed on the basis of individual programs.

Equity means providing equal access to income support and other services for people in equal need. It also means providing assistance for people with different levels of need to achieve similar living standards. This objective is balanced against the need to provide rewards and incentives for self-help so that, for example, people in paid work are able to attain a higher standard of living than those who do not. This paper looks at ways in which people in similar circumstances are treated differently and whether this is justified by the purpose of the payment, the overall objectives or the needs of the individual. The aim is to formulate principles to promote greater equity in this sense.

The UK Commission on Social Justice proposes that:

The welfare state must be shaped by the changing nature of people's lives, rather than people's lives being shaped to fit in with the welfare state; the welfare state

must be personalised and flexible, designed to promote individual choice and personal autonomy.⁴

The challenge in enhancing **flexibility** is to accommodate individual circumstances without the level of complexity currently involved. This might involve amalgamation of payment types or streamlining the process for moving from one payment to another. Flexibility would also mean that entitlements could be adapted to the circumstances of the individual rather than individual needs being subordinate to broad assumptions about the payment category. There is a need to explore ideas such as a modular rate structure or more adaptable activity tests to promote greater flexibility.

⁴The Commission on Social Justice, *Social Justice: Strategies for National Renewal*, Vintage, London, 1994, p. 23.

2. THE EXISTING SYSTEM - FUNCTION AND OBJECTIVES

Social security provides income support to people who have no private income or whose income is deemed to be inadequate, particularly those who face various barriers to supporting themselves through full-time employment. In conjunction with this function the Department provides services to assist people to improve their private income or their living standards.

At June 1994, 3.8 million people were receiving income support through the social security system, either directly or through their partners' entitlement⁵. Two million were of workforce age, of whom 48 per cent were men and 52 per cent women. An additional 0.4 million students (including partners) received income support payments from the Department of Employment, Education and Training and 0.4 million veterans, their partners and widows of veterans received income support from the Department of Veterans' Affairs, almost all over age pension age.

Function

The existing structure is designed to:

- **provide income to allow certain groups to subsist outside the labour force**
 - enabling the aged to retire from work (Age Pension),
 - giving primary care givers a choice to provide care on a full-time basis or to combine care with work (Sole Parent and Carer Pensions, Parenting Allowance),
 - providing for those whose sickness or disabilities prevent them from supporting themselves fully through work (Sickness Allowance, Disability Support Pension Disability Wage Supplement),
 - allowing couples to follow the traditional division of labour (Wife Pension, Partner Allowance, Mature Age Partner Allowance),
 - recognising that long periods outside paid work make it unreasonable to expect some older people to try to return to the labour force (Widow Pension, Widow Allowance, Mature Age Allowance), and

⁵DSS masterfiles June 1994 and data supplied by the Department of Employment, Education and Training and the Department of Veterans' Affairs.

- allowing financially dependent partners a period of transition when their supporting partners die (Bereavement Allowance);
- **provide income to those who are not in the categories above**, provided they are available for work and taking steps to prepare for, enter or return to the paid workforce, that is, meeting the activity test conditions (Job Search, Newstart and Youth Training Allowances); and
- **provide an additional safety net for those in hardship** who do not qualify for other income support (Special Benefit, Special Needs Pensions)

The perceived legitimacy of the system rests to some extent on supporting the "genuinely needy" while discouraging welfare dependence among those who could be self-reliant. The categorical system has been designed to discourage people becoming eligible through their own actions while identifying those contingencies that are beyond the claimants' control.

The multiple payment system enables the Department to identify the reason for granting a person a non-activity tested payment. The payment category informs the recipients of the circumstances by which they qualify and therefore why they are required to notify the Department if those circumstances change. It also provides a public rationale for providing certain groups with non-activity tested income support and allows the Department to monitor whether the person continues to be eligible.

The payments are distinguished by eligibility⁶ category based on the circumstances of the claimant, while the rates and means tests are generally standardised in three classes of payment:

- the **pension** level payments;
- the **benefit** level payments (see footnote 2 on page 1); and
- **Special Benefit**.

Pensions are more generous than benefits, which are in turn more generous than Special Benefit. Apart from the eligibility criteria, reciprocal obligations and residential qualifications, the differences between payment types within each of these classes are relatively minor.

⁶In this paper the term "eligibility" refers to the circumstances under which a person has access to a payment type, the "rate" is the amount payable to such a person before applying the income or assets test and "entitlement" refers to the amount of money payable after applying either of these tests.

Guiding Values

For the purposes of this paper, there are a number of values that guide the analysis which are commonly used in social policy making and implied in the objectives of the various programs. They are:

- **community acceptance;**
- **adequacy;**
- **equity;**
- **maintenance of incentives and encouragement of self-provision;**
- **administrative feasibility; and**
- **financial sustainability.**

Community acceptance

It is essential to have a system that the community considers fair and reasonable, that is understood and that reflects general values. As the system involves income redistribution from taxpayers to income support recipients, both are stake-holders. While good public relations are necessary to make the system understood and to promote community acceptance, ultimately the community has the right to determine, through its elected representatives, what sort of social security system it wants.

To ensure that the system is consistent with social values, it is necessary to consult with recipients and the wider community, both to educate and to test their views.

Adequacy

This is to ensure that people have enough income to maintain a basic acceptable standard of living. Adequacy of income support concerns the amount paid to those without other income as those with private income will normally have higher living standards. Adequacy is determined by the rates of payment in relation to needs and the indexation arrangements which maintain their value. As adequacy issues are being examined in a concurrent research project, they are not addressed in this paper.

Equity

Equity, or fairness, while possibly the most desired value, is conceptually the most complex.

Equity is achieved if people with similar needs are treated equally and if people with greater needs are given more assistance. The (nearly) common rate structure across income support categories reflects the view that people without other income need the same level of support regardless of the reason for their lack of income.

The categories of rates, such as the single and married rates, family payments, rent assistance and other supplementary payments are based on the second principle, that the level of assistance should vary according to need to produce a similar living standard outcome for people in different circumstances.

The term "vertical equity" applies to providing greater assistance to those with lower incomes, and the term "horizontal equity" to providing greater assistance to those with greater costs. Vertical equity underlies means testing, horizontal equity the rate structure.

The equity principle applies generally to income redistribution within society through the tax-transfer system, in that those who have high income in relation to their needs contribute more tax and those with lower income in relation to need receive greater net benefits.

Maintaining incentives and encouraging self-provision

The purpose of providing incentives for self-provision is to ensure that people who take up paid work, provide for their own retirement or claim child support are better off than those who are totally reliant on income support.

It derives from the values of equity, that people who help themselves should be able to improve their living standards, and financial sustainability, that the need for taxpayer support will be minimised if people are encouraged to provide for themselves.

The measures that are directed towards this value are discussed below in the description of the present system. The range of incentives and their effectiveness and relevance for people in different circumstances will be examined in the course of this project.

Administrative feasibility

In designing an ideal system there are certain administrative constraints. If the Department's decisions are to be consistent and predictable across the country, they need to be codified. The rules must be simple and objective and based as far as possible on attributes that are fairly readily proved. This is particularly important if entitlement to income support under certain conditions is postulated as a right rather than as public charity. On a purely practical side, the more complex and discretionary the decision making system the more resources it consumes and the greater the likelihood of inconsistency or error.

These considerations militate against the Department determining entitlement on an individual basis. They do not prevent the Department from offering a claimant a range of choices but they apply to decisions that discriminate between the entitlements of different individuals.

Financial sustainability

This aims to maximise efficiency in the use of public funds to meet income support objectives. As fiscal restraint is an important general principle in Government decision making, there is a case for making it an explicit objective of social security programs.

This value, along with vertical equity, is reflected in income and assets testing and measures that require, encourage or assist clients to obtain private income where they can. It exerts pressure to keep rates low and income and assets tests strict, against opposing pressures to increase the adequacy of rates and increase incentives by making means tests more generous.

3. BACKGROUND TO THE CATEGORICAL SYSTEM

Since its inception early this century, the Australian Social Security system has developed in the context of a debate over whether people in need had a right to publicly provided protection against poverty or whether such assistance "*under-mined self-reliance and initiative on the part of the individual and encouraged pauperism*"⁷. The latter view is based on two arguments, with different policy implications: one is the assumption that access to adequate income support, in itself, reduces the incentive to self-reliance because people would be content to subsist on income support. The second is that income testing of income support reduces the gain from working to increase private income. This debate, in one form or another, still rages as strongly as it did a hundred years ago.

AVOIDING WORK DISINCENTIVES

There are several ways to address these disincentives to paid work: restrict access to income support to those who have no other options, ensure that the returns from working are higher than those from income support, or provide equivalent assistance both to those in paid work and to the jobless.

Restricting access

Access to income support provides a choice between reliance on it and reliance on efforts in the private sphere, or possibly a combination of the two. Successive Governments have tended to provide this choice to sole parents and married women whose husbands were unable to work but have restricted access for men and single women without children to those who could not work because of age, sickness, disability or unemployment. Eligibility for these payments, at least in principle, excludes those whose incapacity is self-induced or who have voluntarily become unemployed or worsened their employment prospects. The joint income test restricted access for those who were expected to be supported by a partner.

From the end of the last century, there have been proposals to provide assistance on the basis of need alone. However the desire to limit access according to specified contingencies beyond the individual's control has been the stronger force in the development of the Australian Social Security system. The first payment types introduced by the Commonwealth, Age and Invalid Pensions, were established on that

⁷T H Kewley, *Social Security in Australia, 1900- 72*, Sydney University Press, 1973, p.4.

basis. The Commonwealth at that time had neither the constitutional role⁸ nor the inclination to provide similar assistance to destitute widows, sole parents, the sick or the unemployed.

When it was introduced, Invalid Pension was available only to those who were totally and permanently incapacitated for work. This was considered too harsh and eligibility was amended in 1941 to allow those with at least 85 per cent incapacity to qualify and again in 1987 to add the condition that at least 50 per cent of the incapacity be due to a medical impairment. However, in the interim, Sheltered Employment and Rehabilitation Allowances were introduced to provide income support to those whose incapacity could be accommodated in specialised workplaces or assisted through rehabilitation programs.

In 1942 and 1943 allowances were established for wives of certain pensioners and for some categories of former wives who were not deemed to be available for full-time work. Unemployment and Sickness Benefits were introduced in 1944 under quite different terms and conditions, intended as short-term relief, with continuing eligibility closely monitored and, in the case of Unemployment Benefits, regularly tested through the work test requirements. Sickness Benefit was payable to those temporarily incapacitated for work due to sickness or accident. It also served to assist people whose incapacity was less than 85 per cent.

These reforms set the pattern for the categorical payment structure which has continued since. Later payment types were added to meet the pressure for extension of the existing categories or were formed by splitting existing payment types or in rare cases by amalgamation.

In 1977, Supporting Mother's Benefit extended assistance to most female sole parents who were not eligible for a Widow's Pension. In 1983, in response to demands for a payment for men caring for invalid wives, corresponding to Wife Pension, Spouse Carer's Pension was introduced. This was restricted to men whose pensioner wives were severely handicapped and needed constant care and attention.⁹ Access to both these payments has been broadened in incremental steps since then, although not without criticism that they were creating incentives to qualify. As Sole Parent Pension was broadened to include unmarried mothers and women who voluntarily separated from their partners, there have been unsubstantiated charges that women have had illegitimate children or left their husbands in order to qualify. Recently concerns have been

⁸The Constitution of 1900 gave the Commonwealth powers to legislate for Invalid and Old Age Pensions. Although other payments were introduced in the early 1940s, their constitutional validity was not clarified until the referendum of 1946 which gave the Commonwealth power to make laws providing maternity allowances, widows' pensions, child endowment, unemployment, pharmaceutical, sickness and hospital benefits, medial and dental services, benefits to students and family allowances.

⁹DSS, *Caring for People with Disabilities: A Survey of Wife and Carer Pensioners*, November 1993

expressed that some unemployed people are seeking work caring for adults with disabilities for the purpose of gaining Carer Pension.

The practice of creating more and more special groups, each with its carefully crafted exclusions, has paradoxically resulted in the situation where those excluded from any payment are now the exception.

Income retention and financial incentives

All the income support payments except pensions for the blind are subject to income and asset tests, to ensure that public expenditure is targeted to the needy. While this objective on its own would be most efficiently served by a dollar for dollar reduction of assistance to those with private income, this would be unfair to those who helped themselves and would remove the incentive to earn small amounts of income. On the other hand, a non-means-tested payment would maximise the incentive to increase income but would greatly increase public expenditure on those who were not needy. The income test structure (free areas and graduated withdrawal rates) represents a compromise between the objective of targeting and the provision of work incentives, but this compromise can still result in high effective marginal tax rates, which substantially reduce the return from increases in private income.

An income tested system therefore needs to ensure that the resulting disincentives are balanced by incentives to increase private income. Perhaps the strongest of these is that the level of income support is below the minimum wage levels that could be obtained through full-time employment (the "replacement ratio"). The Australian system differs from insurance schemes, which have a higher level of income replacement for individuals, but maintain incentives by a time limit on unemployment benefits, for example 6 months. The growth in part-time work and deregulation of wages make the replacement ratio harder to maintain. The adequacy objective requires that the level of income support be maintained.

As well as the income test design and the replacement ratio, financial incentives for selfhelp in the present system are provided through:

- the employment and education entry payments;
- retention of benefits or concessions for a period after a person returns to work; and
- the earnings credit.

There are many aspects of the social security system that require recipients to take action to help themselves. These include the activity test, the requirement for eligible families to claim child support, income-deprivation rules and the bank interest deeming rules.

There are also a number of measures that recognise that for many of the jobless the problem is not the lack of desire to work but the barriers they face through lack of opportunities, skills, disabilities or care of dependent children. These measures are designed to reduce those barriers and assist clients to improve their living standard and participate more fully in society. Examples are JET, Newstart and the Disability Reform Package, the Child Support Scheme and the Financial Information Service which assists people to maximise investment income.

Equivalent assistance for people in paid work

The third way to alleviate poverty without reducing incentives to self reliance is to provide equal assistance to both those in paid work and those without jobs. Within the constraints of fiscal sustainability, there have been a number of measures in this direction.

The family payment structure provides equal assistance for the cost of children to families with low to moderate incomes, irrespective of whether they are reliant on income support or in paid work. The supplement for working families, now Additional Family Payment, was introduced in response to concerns that the level of assistance for an unemployed couple with children could exceed the net income of a family dependent on a single low wage.

Parenting Allowance, which provides income support for the partner of a low income wage earner, as well as that of an income support recipient, was introduced partly due to similar concerns about the married rate of benefit.

In fact, many payment types do not preclude part-time or even full-time paid work and can be used as a wage supplement. The exceptions are Sickness and Carer Pension, which are not payable to a person in substantial part-time work, and Disability Support Pension, which is not generally payable to a person in full-time work. Job Search and Newstart Allowances are not usually granted to a person who is employed but may continue to be paid to people returning to low paid work. While the former stringent income test limited the value of this, from July 1995 relaxing the taper rate provides greater assistance to those returning to work.

These arrangements mean that, apart from the income test, most pensioners and some beneficiaries do not have to choose either income support or private income but can receive in effect a low wage supplement.

Recent Policy Developments

The last decade has seen the most significant reforms of the Australian social security system since the 1940's. This has occurred during a period in which fiscal pressures have been severe, the economy has been through a process of restructuring and the government has been required to maintain disposable incomes through tax and social

security measures to accommodate falls in real wages. In this context, the achievement of maintaining, and even increasing, adequacy in social security assistance for those in greatest need is impressive.

The reforms were also in response to longer term trends. For a long period, female labour force participation has been growing, particularly that of married women, with strong growth in full-time and part-time work in traditionally female sectors of the economy and some increase in female employment in traditionally male jobs. Male fulltime employment has grown numerically and male part-time employment has also increased slightly, but this has not kept pace with population growth. Therefore, although labour market participation and employment have increased over all, unemployment, particularly long-term unemployment, has also become entrenched and the proportion of part-time jobs has increased.

Economic restructuring is affecting the demand for unskilled workers and reducing their relative wage rates, while demand for workers skilled in new technology and work methods has increased. This has reduced employment prospects for older workers, especially those with low work or English language skills, and for many people with disabilities. Young people have significantly increased their participation in education and training as job opportunities for the untrained have dried up.

Accompanying these trends have been social changes, towards greater diversity in the family unit. There has been an increase in de facto marriages, family breakdown and reformation, and sole parent numbers. The age range for child-bearing has widened, as many women defer child bearing. The relative insecurity of relationships has increased the need for women to be able to support themselves financially.

From 1986 to 1989 the Social Security Review, directed by Professor Bettina Cass, examined most aspects of the social security system. The major contributions of the review and its aftermath were:

- increasing **adequacy**, notably in family payments and rent assistance but also in income support;
- reorienting programs for people of workforce age to encourage **active participation** and self-help; and
- providing **links with labour market programs**, training and related support to improve their job prospects.

These were made possible by targeting assistance on the basis of need, rationalising payments, increased administrative efficiency and increased efforts in the detection of fraud.

As noted above, extending family payments and rent assistance to families in low income employment reduced poverty trap barriers to social security clients returning to work. One of the Review's innovative approaches was recognising that the active society principles should apply to sole parents and people with disabilities as well as to those on unemployment payments.

Payments for sole parents were rationalised by combining Class A Widow's Pension and Supporting Parents Benefit and restricting non-activity tested assistance to those with children under the age of 16. The JET program was established to provide links with child care and labour market assistance for sole parent pensioners.

Disability programs were subsequently restructured both to focus eligibility more directly on impairment for work and to remove barriers to pensioners making a staged return to work. The Disability Reform Package set up a system to provide advice and links with rehabilitation and labour market assistance for those on disability payments.

In 1991, Invalid Pension, Sheltered Employment and Rehabilitation Allowance were replaced by a single payment, Disability Support Pension, available to those with an impairment of 20 per cent and who are unable to work full-time at full award wages or able to be retrained for such work in the next two years. Sickness Benefit was replaced by Sickness Allowance, available for up to 12 months. The changes were designed to:

- reduce the complexity of payments;
- encourage pensioners to test their capacity to work part-time, without fear of becoming ineligible;
- accommodate the needs of those with long-term or indefinite disabilities, for whom Sickness Benefit was inappropriate as it was designed as a short-term payment; and
- to avoid Invalid Pension being used by unemployed people with moderate disabilities to avoid the work test or to seek early retirement.

Contrary trends have occurred in the unemployment payments. On the one hand the original category has been split four ways: Job Search, Newstart, Mature Age and Youth Training Allowances. These are differentiated by their activity test conditions and the labour market support offered. On the other hand, particular groups have been identified within the Job Search and Newstart populations, to whom special conditions apply.

In 1991, Unemployment Benefit was replaced by Job Search and Newstart Allowances, for the short term and long term unemployed. To the existing activity test was added structured access to labour market programs as part of Newstart agreements, giving clients greater scope for engaging in activities to improve their labour force prospects rather than simply being required to look for work. They were also more closely

monitored to ensure that they were complying with these requirements. In 1994, a pension level payment, Mature Age Allowance, was brought in for the long-term unemployed aged 60 to 64.

More recently, the Government's 1994 White Paper, *Working Nation*, announced further measures to encourage labour force participation and help the unemployed. These include case management and the Job Compact for long-term recipients for unemployment payments; a less stringent income test for beneficiaries to encourage them to take up low paid work; and reorienting support for financially dependent partners of clients. Dependent partners without children no longer automatically qualify for nonactivity-tested payments on the basis of their partners' eligibility if they were aged under 40 at 1 July 1995. Those aged 40 or over at that date, without children, qualify for Partner Allowance only if they have no recent workforce experience. For a couple with children, however, one partner is eligible for Parenting Allowance to allow them to provide full-time care or balance care with paid work. As entitlement is based on both incomes, this will be available only to low income couples.

Comparison with Overseas Models

In many ways the Australian social security system is more adaptable than most overseas systems to the new diversity in work patterns, wages and family structures. While the Australian system focuses on redistributing income between individuals to provide an adequate minimum income for those without other means, the predominant model elsewhere focuses on redistributing across an individual worker's lifetime. This is satisfactory only for those who have spent a substantial part of their lives in secure fulltime work at adequate wage levels to maintain themselves and their dependants.

The Australian social security system provides social assistance, that is, means-tested, needs based assistance funded from general revenue, with the objective of alleviating poverty and supplementing low incomes for those eligible. Recently this has been supplemented by a system of private superannuation funds, providing age and invalidity benefits. Employers provide directly for paid recreation and sick leave, and in some cases paid maternity leave.

Although they may also provide social assistance, in most OECD countries the principal system is social insurance, which is not means-tested, is earnings related and is funded by contributions from employers and employees or the self employed. Its objective is income replacement, to protect workers from loss of income through specified contingencies, although the replacement rate is usually less than 100 per cent of former earnings. Entitlement is usually based on contributions, which reflect length of employment and previous wage levels, but often exclude part-time or casual work.

As in the Australian system, social insurance schemes are categorical, developed initially from age and invalidity benefits. The typical categories covered by social insurance

schemes are retirement, invalidity, sickness, unemployment and maternity. If the worker dies, the scheme provides benefits for a surviving widow and dependent children, although some of these benefits have been reduced as women become less financially dependent.

There are many differences among countries in the details and few schemes are now based purely on social insurance principles. Many have minimum and maximum benefit levels, and some have supplementary payments for dependants. Most are subsidised by the State either by direct subvention or by tax privileges.

The right to social insurance coverage arises as a condition of work. This has various implications that are different from the Australian system.

- **The benefit rates are generally based on prior wage levels rather than need.** They are not designed to provide adequately for those with special needs. For those whose earnings were previously low, benefit levels may be inadequate.
- **The highest rates go to the most privileged.** The pre-existing relativity between rich and poor is maintained so that expenditure is targeted towards those most capable of providing for themselves, rather than to those most in need of assistance.
- **Universal entitlement means that total expenditure is very high.** Most schemes have encountered major financing problems due to the ageing populations and higher than predicted claims for unemployment and invalidity benefits. In comparison, Australia's system is very efficient in addressing poverty with relatively very low expenditure, because it does not aim at income replacement for former high earners. Australia's population ageing is, and will be, less pronounced than in most OECD countries and the increased financial burden on the working population may be substantially offset by increasing female participation.
- **Those not in the workforce are not covered.** Some of the most vulnerable members of society are excluded from a social insurance system, such as:
 - the young unemployed who have no employment history;
 - women outside the paid workforce, including many sole parents;
 - people with part-time, casual and/or intermittent employment histories;
 - carers of the aged and people with disabilities;
 - those with congenital disabilities, or disabilities commencing before working age;and
 - the long term unemployed.

The Australian system is much more inclusive than social insurance systems, and although there are gaps in coverage they are fewer and more easily remedied by small policy changes. The one apparent omission in the Australian system relative to others has been maternity benefit, although this will be addressed by the lump sum maternity allowance.

- **Women outside the workforce are better covered in Australia, while those in paid work are better covered by social insurance.** As eligibility derives from an individual's employment record, women who have been employed are entitled in their own right but those who have not are excluded, apart from widows. In Australia, eligibility is not dependent on prior employment but is based on the joint income of a couple, so a woman whose husband has income may not have access to support based on her own needs.
- **Dual social insurance/social assistance regimes are complex.** Although the Australian system seems complex enough, the complexities resulting from the interaction of two very different systems in one country can be far greater. This is particularly so in the UK where the social assistance system is codified. In countries where it is not codified, its discretionary nature causes other problems such as inequity, uncertainty and discrimination.
- **Social insurance systems are less flexible in response to change.** Because entitlement to social insurance cover is acquired over time, the system is less adaptable than the Australian system where entitlement occurs at the time of need. This has meant a longer lag in responses to changing economic and social pressures.

Despite these differences, which are disadvantages if measured against the Australian objectives, such systems do have the advantage of a clear relationship between social contribution and the right to assistance, as stated by the UK Commission on Social Justice:

*Social insurance is a contract between individuals and society. When we are earning, we accept the responsibility of paying in; when we are not, we have the right to draw out. Where means tested benefits divide society into two classes those who need to claim and those forced to pay - social insurance is based on an ethic of mutuality which is essential if we are to create a better community.*¹⁰

The transparency of the relationship between social insurance systems and their beneficiaries is replicated only in those parts of the Australian income support system for which there is widespread community acceptance, such as age pension. In Australia, members of the community with income pay tax according to their ability and those who

¹⁰The Commission on Social Justice, *Social Justice: Strategies for National Renewal*, Vintage, London, 1994, pp 231-232.

are in need, through various misfortunes, are supported by the community. This provides a mutual guarantee of protection in such contingencies. The legitimacy of this model was argued a century ago:

A 'Government by the people for the people' cannot dispense 'charity' amongst units which constitute the whole ... in so far as it contributes to the necessities of those in distress, it merely distributes to them that to which they are entitled.¹¹

This view of social unity is directly opposed to the UK Commission's view that social assistance divides society. However, there is a widespread tendency to see social assistance as charity, rather than a right. This is less so in Australia, where entitlements are embodied in legislation, than in countries where social assistance is provided at the discretion of government agencies.

A proper analysis of the appropriate response to the pressures of the changing economic order requires clarification of whether income support is a right or a charity. This determines what government's responsibilities are, who should receive assistance and under what conditions.

The European social insurance model has high legitimacy, but is at present facing major challenges from the same economic and social changes that Australia is experiencing. The Australian system is probably in a better position to meet these challenges but needs to develop a clear rationale that also provides a high level of legitimacy.

¹¹J C Nield, MP, *Report on Old Age Pensions, Charitable Relief and State Insurance in England and on the Continent of Europe*, NSW Government, Sydney, 1898, p. 433

4. ISSUES

As Part 2 illustrated, a central concern of the social security system has been to provide income support for those in need, in a fiscally efficient way, without creating disincentives to self provision. As in other OECD countries, the system set in place by the end of the 1940s was designed for a society where unemployment was largely frictional, almost all jobs were full-time, wages were sufficient to provide for a couple, married women were financially dependent on their husbands and did not usually engage in paid work. Over the last thirty years these features have changed for a society of much greater diversity in work patterns, wage levels, family formation and female roles.

The Australian system has adapted over time to these changes, perhaps more easily than the typical social insurance model where entitlement is founded on a history of full-time work at adequate rates of pay. However, here as elsewhere, adapting to this diversity has caused a number of stresses in our system. This paper concerns whether the categorical system can continue to adapt adequately or whether more fundamental changes are needed.

Complexity

The letter of transmission from the Secretary of the Department of Social Security to the Minister, presenting the 1993-94 Annual Report of the Department, states:

*One issue referred to in passing in the Report is the increasing complexity of the Social Security System. In part this is of course due to the very necessary emphasis on targeting those most in need. However, it does create stresses within the System and increases the likelihood of disruptions with consequent difficulties for both customers and staff. While there is no one simple remedy, as we have discussed, it is an area which I believe deserves special attention in the coming years.*¹²

The Australian social security system is now very complex. The Social Security Act runs to around 1,500 pages and it is supplemented by a Guide to the Administration of the Social Security Act which is of a similar size. For people of workforce age there are currently twenty different social security income support payments. All have different eligibility criteria, compounded by differences in rates, income and assets tests and other rules. Weatherley reported that between 1986 and 1991 there had been more than 1,000 individual amendments to social security policy manuals. He argued that the pace of change in recent years had increased complexity and that:

¹²Department of Social Security, Annual Report 1993-94, AGPS, Canberra, 1994, p. iii.

*While each change, seen in isolation, may have a compelling logic, the cumulative impact on staff and clients may not be sufficiently appreciated, and the costs not accurately assessed.*¹³

Complexity makes the programs hard to administer and prone to administrative error as it is difficult for staff to remember all the details, particularly when some circumstances for which special provisions apply occur only rarely.

Complexity also reduces the public acceptance of the system. If the public does not understand the system and perceives decisions as arbitrary and unjustified, they will be less inclined to comply with its requirements and less inclined to support the level of expenditure.¹⁴ Many relatively small changes made every year to individual payment types increase the complexity and it is important to review the system periodically to counteract this process.

The argument for introducing new payments is that they allow support to be varied to meet the needs of particular newly identified groups. There are, however, some dangers in proliferating payment types: people are less likely to know which payment they should receive and why; and there is additional administrative work in transferring people across payments. Family-role based payments provide numerous examples of the complexity that has occurred in the evolution of the payment structure.

One example is in payments for parents. Whether single or partnered, from July 1995 a parent providing primary care for dependent children is eligible for a non-activity-tested payment to allow her or him to provide full-time care instead of being in paid work. For historical reasons, Sole Parent Pension covers those who are single and Parenting Allowance will be provided for those who have partners. Most sole parents become single through the breakdown of a relationship and most reconcile or re-partner after a period as sole parents. Either of these events could require the person to terminate one payment and claim the other. Not only is it administratively cumbersome to transfer between pension and benefit but there are a number of anomalies. (These can occur to people moving between other payment types, but this example has been selected as one that might commonly occur.)

If a decision is made that a woman has been living in a marriage-like relationship while receiving sole parent pension, she incurs a debt to the Commonwealth of the full amount of pension she has received during that period and all family payments except Basic

¹³R Weatherley, "Doing the right thing: how social security claimants view compliance", *Australia and New Zealand Journal of Sociology*, Vol 29, No 1, 1993, p 55.

¹⁴See Michael Raper, "Welfare yachts and Band-Aids: the cause and effect of crippling complexity in the social security system", in Disney and Briggs (eds.) *Social Security Policy: Issues and Options*, 1993

Family Payment, although she might have been eligible for Parenting Allowance during that time if she had claimed, Assuming that neither partner has private income that would affect her entitlement, if she had one child under 13, the amount repayable would be \$428.60 a fortnight. If there were only one payment type, the amount repayable would be the difference between the married and sole parent rates, \$89.40 a fortnight.

The pay-day for Parenting Allowance is in an alternative week to that for Sole Parent Pension, which means that the person would gain or lose a week's payment according to which week the transfer takes place. Sole parent pensioners qualify for pension concessions, which are more generous than those for parenting allowees. Other anomalies could arise because of the different residency requirements.

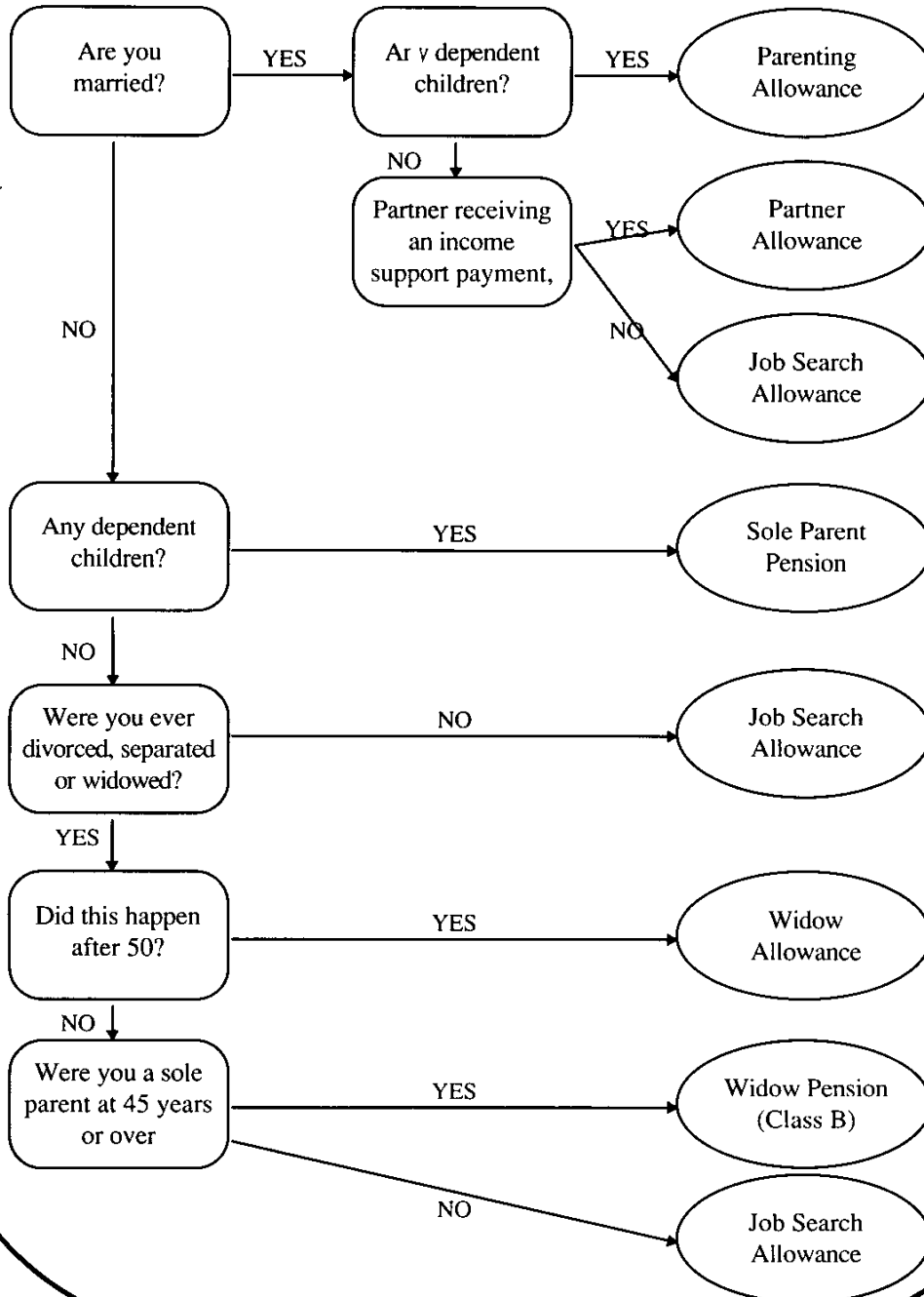
If the person's partner is living separately, for example because of illness or imprisonment, the person has a choice between Sole Parent Pension or Parenting Allowance. While the rates would be the same, those who choose the latter could be disadvantaged because of the benefit income test and lack of access to pension concessions.

Another example is the case of older women who have access to non-activity-tested payments because they have been out of the labour force for a long period, financially dependent on their partners. The chart overleaf outlines the decisions that apply to a 55-year-old woman with little labour market experience in determining eligibility for a payment.

She may be eligible for one of six different payment types¹⁵, including one that is activity tested (Job Search Allowance) and four that provide access to labour market programs (Job Search and Widow Allowance, Widow B and Sole Parent Pension). However as the chart makes plain, her history as a parent and a partner, not just her labour force prospects, determines her eligibility.

¹⁵Parenting Allowance, Partner Allowance, Job Search Allowance, Sole Parent Pension, Widow Allowance, and Widow Pension (Class B).

Binary decisions affecting the entitlement of a 55 year old woman with little previous labour force attachment.



Pensions and Benefits

When benefits were introduced there was a clear distinction between them and pensions, Pensions were for people who would never return to employment because of either age or permanent incapacity. Benefits were short-term payments, the value of which was low enough not to reduce the incentive to take up any full-time work that was available. It was assumed that people could live on a lower amount for a short period. While pensioners were encouraged by the income test to supplement their income with parttime work, beneficiaries were expected to leave benefit for full-time work.

The reason for the distinction between pensions and benefits has become less clear over time. The disability payments retain the distinction between pensions for long-term conditions and benefits for short-term conditions, but recent trends have been towards benefit level payments for both short and long term conditions for people of workforce age.¹⁶

While most people granted Job Search Allowance return to work after a short duration, the proportion of long-term unemployed has increased over recent years.¹⁷ The benefits for partners and widows are not expected to be for short-term absences from the workforce. Sole parents qualify for pension while married parents qualify for benefit, although in most cases married parenthood is of longer duration than sole parenthood. The median completed duration on Sole Parent Pension is 12 months.

The differences between pensions and benefits would be a significant obstacle to any plan to amalgamate payments. If an amalgamated payment were at pension conditions, it would be costly; if it were at benefit conditions, there would be losers. There are some 160,000 pensioners of workforce age (17 per cent) receiving part-rate pension because of the income and assets tests. If these people were subject to the benefit income test, they would receive a lower rate. There are 324,000 single pensioners of workforce age without children who would lose if they were paid at benefit rates. On the other side there are about 149,000 part-rate beneficiaries (not including partners) who would gain under a pension income test and 599,000 single beneficiaries without children who would gain from a pension rate.¹⁸

¹⁶Allowees aged 60 and over with little recent employment are paid at pension rates and have pension level concessions, but are subject to the benefit income and asset tests.

¹⁷In February 1990, 31 per cent of unemployment payment recipients were receiving Newstart Allowance (for those on benefit over 12 months). By May 1995 this had grown to 48 per cent.

¹⁸Numbers of single recipients without children are from DSS sources from June 1994 and numbers affected by the income test are from November 1994.

Gaps in Coverage

As the various programs that constitute the social security system have been developed separately, the system itself does not have an overall objective specifying who should be covered. An analysis of gaps in eligibility depends on what such a principle might be.

If the overall purpose is to provide for those who cannot, or are not expected to, participate in the labour force and for the unemployed who are looking for work, there are a number of gaps and inconsistencies. The attempt to group applicants into categories is always likely to leave a residual group who do not fit any category. Some of those excluded are granted Special Benefit, which is more strictly means tested than other payments. While from the perspective of each payment type certain exclusions seem reasonable, looking at the overall list of those with incomes below the social security cut-out points who are not eligible for payment, there does not seem to be any obvious principle distinguishing who is covered from who is not.

Examples of existing gaps are

- those in full-time paid work or self employment with low incomes, unless they are sole parents, dependent partners or widows or have a long term disability;
- those caring for a person with a disability if they could work more than ten hours a week but less than full-time, or if the disability is intermittent;
- those whose incapacity is expected to last more than one year but less than two;
- those assessed as unfit for work by the Commonwealth Employment Service (not eligible for Job Search Allowance) but fit by the Department of Social Security (not eligible for Sickness Allowance);
- separated or married parents who share the care of their children half the time each; and
- women about to give birth and therefore unable to seek full-time work (unless they are already partner or parenting allowees or sole parent pensioners).

Because couples are assumed to share income, people whose partners have middle to high incomes are not eligible for income support in their own right. Nor are people whose reasons for not seeking full-time work are not specified under the Social Security Act.

Two-thirds of Special Benefit recipients do not meet residential rules or are affected by waiting periods for payments.¹⁹

Residence requirements

There are prior residence requirements of five or ten years for all pension payments except Wife or Carer Pensions but not for benefits. There are seventeen different sets of rules applying to various payments. Different rules can apply to members of the same couple and a further set applies to child payments.

These requirements do not apply in all cases: a person who becomes a sole parent or acquires a disability while resident in Australia is immediately eligible. The exclusion of people on the ground of length of residence, despite being given permanent residence under immigration policy, is arguably not consistent with policies to provide equal treatment to Australian residents regardless of origin.

¹⁹DSS master files, Special Benefit by category, 16 August 1994

Waiting periods

For benefits, there are a number of waiting periods: the ordinary waiting period, waiting periods due to liquid assets or unused annual leave and waiting periods for education leavers and newly arrived residents (other than refugees). Where these are based on the person's access to other resources, they might be better dealt with through the income and assets test. Others are imposed without regard to whether the person has sufficient resources to support him/herself during the waiting period. The rationale for these is not necessarily needs-based. On the contrary, education leavers and newly arrived residents are often financially vulnerable, because of lack of access to other resources.

Low Income Work

If the purpose were to provide equal support for people in equal need, part-rate income support would be available to people in work, who are not unemployed but whose incomes are below the cut-out points for social security payments. Most of these would be self-employed, including farmers, but there is a growing number of part-time or intermittent jobs for which the wages are below the cut-out points for pensions and possibly for benefits, particularly since the liberalisation of the benefit income test in July 1995.

Most payment types, other than unemployment and disability related programs, already have no restrictions on the amount of paid work a recipient engages in, subject to the income test. Job Search and Newstart allowees who commence paid work for which the wages are below the cut-out point can now continue to receive part-rate payment, although they are unable to claim these allowances if they are already in work of this nature. Extending eligibility to all low wage workers would be formalising what already exists for many people.

There are two important issues in fully including this group. The self-employed have diverse arrangements covering business and private income and derive various benefits from their business activities which make the income and assets tests less reliable as an indicator of need than it is for wage and salary earners. Open access for this group would extend assistance to many who are in genuine need but might also reach others who are not. Second, an income supplement for low income employees could affect wage levels at that end of the labour market. Further research is needed on both needs assessment for the self-employed and the industrial relations implications of wage supplements.

A purely needs-based system would provide equal assistance to all people in need regardless of how the need arose. Any conditions imposed, such as activity tests or other obligations, should be within the person's power to meet. This would be a very different approach from the present one, where there are a number of provisions that make a person ineligible on the basis of actions he or she has already taken.

Categorisation Anomalies

Many of the social security policy changes in recent years have been designed to improve the targeting of relatively scarce income support resources and to improve the integrity of the system by ensuring that only the genuinely needy receive payments.

The political appeal of measures designed to "improve targeting" is obvious. 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 bullet actually hitting the bullseye .²⁰

The attempt to categorise clients faces some inherent obstacles. One is that qualitative categories are not mutually exclusive. More importantly, the eligibility categories are used to determine who should have access to non-activity tested payments. This does not necessarily coincide with relative income needs. In this context, it is important to remember that:

- **Not all sole parent clients are receiving Sole Parent Pension.** At June 1994, there were 16,000 sole parents receiving income support payments other than Sole Parent Pension. These are not required to seek Child Support, although they are required to seek child support to claim Additional Family Payment.
- **Not all the unemployed receive Job Search or Newstart Allowances.** "Unemployed" means not employed, available for full-time or part-time work and actively seeking it. There are many people, particularly women, receiving nonactivity tested payments who are unemployed by this definition who may not receive equal labour market assistance, particularly under the Job Compact.
- **Not all people with disabilities receive disability payments.** Disability Support Pension is payable to people with an impairment of 20 per cent or more and a continuing inability to work full-time for at least the next two years. There are people with a significant impairment who are able to work or who may improve within two years. There are also people who, because they qualify for an alternative payment, do not want to claim the pension although they would be eligible. People under 21 with disabilities who are not disability support pensioners do not receive Youth Disability Supplement and those between 21 and 25 living with their parents do not receive rent assistance.

²⁰P Saunders "Selectivity and targeting in income support: the Australian experience", *Journal of Social Policy*, Vol 20, No 3, 1991, p 310.

- **Not all carers are on Carer Pension.** A 1993 survey of wife and carer pensioners by the Department of Social Security indicated that 29 per cent of wife pensioners were providing care at a level comparable with carer pensioners, which would mean that more than twice as many carers were receiving Wife Pension as Carer Pension.²¹ The Australian Bureau of Statistics Survey of Disability, Ageing and Carers²² also reported a large number of carers receiving income support types other than Carer Pension.

In short, a provision designed to meet the needs of clients in a particular circumstance will not be accurately targeted if it is confined to those receiving a particular payment type.

Allocating people to categories requires objective criteria to be used as indicators of different needs. These criteria must be not only relevant but feasible to administer. For example:

- impairment level is taken to indicate relative ability to work and to obtain employment;
- a marriage-like relationship is taken to indicate that partners share income and costs;
- income and assets are taken to indicate relative needs, regardless of access to other non-financial goods or services;
- age is taken to indicate relative prospects of finding work.

While these assumptions are generally accepted, some problems arise when using them. As one example, a marriage-like relationship is used as an indicator that two people are prepared to share income. This criterion is used to determine rates, income assessment and, for some payments, eligibility. Some of the consequences are explored below.

- **The criterion might not correspond with the characteristic it is used to measure.**

- Not all people in marriage-like relationships are prepared to share income, particularly those in short term de facto relationships. To the extent they do not, this criterion does not measure the need of each partner. It also ignores private transfers between people not in marriage-like relationships who are therefore unfairly advantaged in comparison with those who are married.

²¹Department of Social Security (November 1993), *Caring for People with Disabilities: A Survey of Wife and Carer Pensioners*, (unpublished).

²²Australian Bureau of Statistics (1993), *Disability, Ageing and Carers, Australia*, ABS Cat. No. 4430.0, Canberra.

- **The criteria themselves might be indistinct.**

- There is a long continuum from the mutual expectations of casual acquaintances to those in traditional marriage. The factors specified in the Social Security Act for determining a marriage-like relationship, although based on Federal Court judgements, still rest on subjective interpretation and are still subject to frequent dispute. In practice, it may be hard to determine the existence of a marriage-like relationship yet, for many women, access to any form of income support is dependent on this criterion.

- **The categorical system tends to apply bivariate decisions to continuous characteristics.**

- The point is made above that, for many reasons, partners may share income to varying degrees. In contrast to the real degree of flexibility that is likely to exist, couples are categorised as sharing equally at all times as the decision making process can only assume an all or nothing basis.

- **Though categories are identified, the treatment of each might not be entirely appropriate to the distinguishing characteristics.**

- This can be tested by asking whether the differences in payment conditions are logically based on empirically tested differences between the groups in each category. To illustrate, a sole parent moving into a marriage-like relationship with an unemployed partner loses access to JET (unless already participating), the Employment Entry Payment and the 50 per cent taper on the income test. However, her need for income or for training and related assistance is not likely to be any less.

Other examples that could be used to illustrate these types of error are the assessment of impairment for Disability Support Pension and the age based criteria for Widow, Partner or Mature Age Allowances. In combination, multiple payment criteria and categories have led to a proliferation of provisions that apply to a person on one payment but not to a person with the same characteristics on another payment type. For instance, access to labour market assistance through the Job Compact, through JET and through special provisions for disability support pensioners is confined to particular payment types.

One response to this would be to avoid categorisation: to avoid erroneous, arbitrary or inequitable distinctions we could provide a uniform, unconditional payment to all individuals. This argument has been proposed as a reason for a Basic Income²³. This approach will be discussed further in Part 5 of this paper.

²³ Robert E Goodin, "Towards a Minimally Presumptuous Social Welfare Policy" in Philippe Van Parijs (ed.), *Arguing for Basic Income: Ethical Foundations for a Radical Reform*, Versa, London, 1992.

However, it can be argued that it is better to target imperfectly than not at all. This option entails continuing with categorisation but applying it with caution and restraint, maximising equity while limiting outlays. This does not necessarily mean retaining the many separate payment types - an efficient system would base assistance or obligations as directly as possible on the relevant characteristic rather than according to a payment type: for example, disability *not* Disability Support Pension, care of children *not* Sole Parent Pension or Parenting Allowance, unemployment *not* Job Search or Newstart Allowances. The use of categories to distinguish who should be activity tested should affect only the activity test; and categorisation to establish relative need should affect only rates and income assessment.

Activity Testing and Labour Market Assistance

The activity test was formulated in 1944 in order to demonstrate whether an applicant for unemployment payments was capable of and willing to undertake work. It came into force in July 1945 at the commencement of the period of post-war expansion when the demand for labour was high, full-time work the norm and women's labour force participation low. The reasonable expectation of the unemployed was a short period of income support followed by full-time employment.

Due to apparently permanent changes in the labour market and the labour force and despite historically high levels of labour force participation and employment, there is still a large number of people of workforce age whose likelihood of a return to work is low. It is now accepted that there is no real prospect of full employment in the foreseeable future. The Government's policy statement in May 1994 stated:

*We do believe, however, that it should be within our grasp to reach an unemployment rate of around 5 per cent by the turn of the century. And that will be a very considerable achievement.*²⁴

At May 1995 just over two million people were receiving income support payments other than Age Pension or Wife Pension for the wives of age pensioners. This figure includes not only the unemployed but also people with disabilities, parents, carers, widows and dependent partners. This is about 18 per cent of the resident population of workforce age. At April 1995, eight million people of workforce age were employed, 69 per cent of the resident population of this age. It is clearly not a proposition to expect that jobs can be found for the majority of income support recipients.

ACOSS²⁵ has identified those particularly at risk as the long term jobless, people with low skill levels, people from a non-English speaking background, older people, those

²⁴ Commonwealth Government, Working Nation: The White Paper on Employment and Growth, AGPS, Canberra, May 1994, p 1.

with disabilities, the young homeless and people with low living skills, a history of drug or alcohol dependence, psychiatric disabilities or recent criminal records. Other barriers are posed by family responsibilities and locational disadvantage. Many face a combination of these factors. At the same time there has been a significant increase in the number of workers available to the labour force because of the increased participation of women.

Some of the groups above are covered by non-activity-tested payment types and some are not. In response to the changing labour market over the last two decades, the Government has created new payments and abolished or modified others. These include restructuring disability payments, phasing out Widow B Pension, extending sole parent and carer pensions, introducing Mature Age and Widow Allowances, the proposed changes to eligibility for Partner and Parenting Allowances and Wife Pension and the female Age Pension age. At June 1994, 600,000 men (59 per cent of male social security income support recipients of workforce age) and 248,000 women (23 per cent of female recipients of workforce age) received activity-tested payments.

As indicated earlier, the activity tests have been broadened from a requirement to look for work to include a range of activities that are likely to improve an individual's labour market prospects. These include short training and labour market programs and voluntary work. In some circumstances recipients of unemployment payments are exempt from the activity test, for example those with short-term illness or where there is no locally accessible labour market. Some older recipients are able to satisfy the test by part-time work and others have reduced reporting requirements. There have been suggestions that the test might be broadened to include socially useful unpaid work, such as caring for children or adults with disabilities²⁶.

In May 1994²⁷, the Government announced further measures for the unemployed. As well as reforms to improve labour market programs and the job training system, these included the Job Compact, which will guarantee case management, training and a six to twelve month job placement for anyone who has received unemployment allowances for eighteen months or more.

Recipients of some non-activity-tested payments have access to labour market assistance programs on a voluntary basis. These include disability support pensioners and sickness allowees, sole parent, widow B and carer pensioners and widow allowees. There are no

²⁵ ACOSS, *Report of an investigation of approaches, programs and policies for those most disadvantaged in the labour market*, prepared for the Commonwealth Task Force on Employment Opportunities, 1993.

²⁶ Bettina Cass, "Social Security Policy into the 21st Century", in Disney and Briggs (eds.) *Social Security Policy: Issues and Options*, AGPS, Canberra, 1994.

²⁷ Commonwealth Government, *Working Nation: The White Paper on Employment and Growth*, AGPS, Canberra, May 1994.

similar programs targeted at partner and parenting allowees and wife pensioners, although they have the option of registering with the Commonwealth Employment Service for labour market assistance.

The activity test has proved to be flexible to meet different circumstances, although there are still some recipients for whom the requirement seems unsuitable, particularly people who can only work part-time, as the activity test is still, despite some exceptions, geared to full-time work. Those who are eligible for other payments, however, have no activity obligations at all. In some cases the cut-off point for eligibility for non-activity tested payments is quite arbitrary, yet the treatment of those who fall on either side of the divide is very different.

- A person with a short-term disability who could work more than eight hours a week has access only to an activity-tested payment, while a person with a long-term disability who could work up to 29 hours a week is eligible for a pension and not required to meet any activity test.
- The Disability Reform Package provides a high degree of labour market assistance to an unemployed person with a 20 per cent impairment who is assessed as being unable to work full-time, at full award wages, or to be retrained to do so within two years. However, a person with a 19 per cent impairment, or with an impairment over 20 per cent but who is assessed as able to work, is activity-tested and receives the same level of labour market assistance as other Job Search allowees.
- Carer Pension is not available to those who could work more than 10 hours a week, while parents, widows and dependent partners are free of an activity test without regard to their labour force capacity.
- Sole parents and parenting allowees go from no activity test to a full-time activity test on the youngest child's sixteenth birthday. If separated parents are sharing the care of a child, one can receive Sole Parent Pension with no activity test, while for the other there is no recognition of the level of care he or she provides.

Another approach to activity testing would be to have more flexible arrangements for those at the margins. Instead of an "all or nothing" divide, those who could work but have moderate disadvantages could be subject to individual agreements that could take account of their level of capacity or caring obligations and include options such as parttime work or study. Such an approach would be easier in a single payment structure than in a categorical system.

There has not been an overall review of the principles behind our system of labour market incentives and obligations and the variety of approaches in practice for different groups. Such a review could clarify the rationale for imposing reciprocal obligations, why they should apply to some people and not to others and what is appropriately included. It is debatable how effective activity testing is in the new economic conditions.

A review might also look at the effectiveness and appropriateness of incentives and disincentives in the payment structure, means testing and supplementary payments. Finally, it would compare strategies for providing labour market assistance.

Stigma

Stigma can arise from community resentment against people who are perceived to get income support unfairly because they are suspected of being lazy or immoral. It is thus affected by the perceived legitimacy of the payment and is exacerbated by any categorical or any non-universal system of assistance where a small group is treated differently from the majority on the basis of some disadvantage or failure that sets them apart. The relationship between perceived legitimacy and common perceptions of the degree of control recipients exercise over their own circumstances appears to be strong. The category to which a person has been allocated affects the way the person is perceived by other people, government agencies and the person themselves.

- For example, Sole Parent Pension identifies recipients not only as parents but as people, particularly women, who have failed to form a permanent marriage like relationship. If they were brought into a common payment with parenting allowees they would be more likely to be identified primarily as parents.²⁸
- In consultations with parents of young people with disabilities in 1993²⁹, many parents stated that they encouraged their children to apply for Job Search Allowance rather than Disability Support Pension, although they would be eligible for both, to avoid the stigma of disability. This was not only to avoid being perceived by others as having a disability but also to prevent the children perceiving themselves as unable to work or participate on equal terms with others.
- In means-tested systems recipients are identified as poor, or failing to have achieved financial self-reliance. This identification is less likely to occur in universal systems. It has often been argued that Age Pension is the least stigmatising of social security payments because the great majority of the population in that age group receive it.

If stigmatisation occurs through separate identification of certain groups, then it should be possible to reduce it and to protect the privacy of recipients by moving towards more general payments. This view of course must be balanced against the argument that

²⁸ The Hon Peter Baldwin MP, "Progress and Prospects in Social Security Policy", in Disney and Briggs (eds.) *Social Security Policy: Issues and Options*, AGPS, Canberra, 1994.

²⁹ Departmental consultations on Child Disability Allowance, undertaken by the author, 1993.

categorisation allows for greater transparency in policy decisions and, for some people, identification in a high legitimacy group protects them from the stigma of being associated with groups of lower legitimacy.

5. ALTERNATIVE MODELS

In considering how to simplify the system, the following discussion will seek to construct a system from first principles. It will start with the simplest system and its implications, then consider the addition of other components. The paper uses these as hypothetical models rather than proposing that they be adopted.

As noted in the introduction, the discussion here is confined to options for a noncontributory, non-earnings related system of poverty alleviation for people of workforce age. The main remaining structural issues are:

- **Should assistance be accessible to all or are there groups whom we wish to exclude?**
- **Should the rate of assistance vary with individual need or be at a single level?**
- **Should assistance be means tested?**
- **Should assistance be activity tested?**

The present system has grown up incrementally around decisions over whom to include and exclude from access to support. While most of those in need are now eligible, the system did not start with, and has never had, an overall objective of inclusion. The first three models discussed below start with a general base for inclusion and each adds a level of exclusion. The population base is Australian residents aged 16 or over, as defined in the Social Security Act, because that is the base used at present for benefit payments.

The present system also distinguishes between claimants on the latter three questions. Each requires a set of information about each client and a complex decision making process, based on various targeting assumptions, which have some margin of error. Each impinges to some degree on privacy and individual freedom and might be seen as distorting choices. However, where the assumptions are well founded, each of these allows adequacy to be maintained at the lowest cost to public outlays, and provides for an equitable distribution of income support.

A summary of the two broad approaches to income support - a categorical system and a purely need-based system - was provided by the Henderson Commission³⁰

³⁰ Professor Ronald F Henderson, Chairman, Commission of Inquiry into Poverty, Poverty in Australia, First Main Report, Vol. 1, AGPS, Canberra, 1975, p. 30.

In deciding who should have their disposable income increased above their private income by government action, there are two main contentions:

(1) The money should be spread among people with defined personal characteristics. The aged, the sick and invalid, single parents, and the unemployed are the main categories at present favoured in Australia.

(2) The money should be spread among people who otherwise would have little or no disposable income. The assessment of "little or no" is in relation to some criterion of needs.

A Basic Income

"A basic income is an income unconditionally paid to all on an individual basis, without means test or work requirement"³¹. All residents would have **a right to a minimum payment**, regardless of circumstances or means.

Basic Income has been advocated by a wide range of economists and political thinkers across the political spectrum from Bertrand Russell in 1918 to Milton Friedman and J K Galbraith in the 1960s, and was proposed in Australia by the Commission of Inquiry into Poverty in 1975. There has been a renewal of interest in the idea, both in Australia and Europe in recent years, in the light of social and economic changes. While it has not been seriously contemplated by Governments, it provides a useful starting point for considering the implications of single payment models.

Taxes would be increased and could be made more progressive to offset the cost. Some proposals rely on broadening the tax base through consumption taxes or other indirect taxes to avoid raising income taxes to unacceptable levels. The losers would be higher income earners or higher consumers as the increase in their tax would be greater than the basic income.

A similar outcome could be achieved through a negative tax, that is a universal tax rebate that was cashed out to those whose incomes were below the level to benefit fully from the rebate.

A universal payment would provide a minimum income for all, including those who are not currently eligible for any income support category and those with high private income or assets. It would require no judgements on individual circumstances and no personal information. It would not penalise thrift and reward failure, because its impact would be neutral. It would be neutral between married and single, healthy and

³¹ This definition is that used by the Basic Income European Network, quoted in Philippe Van Parijs, *Arguing for Basic Income: Ethical Foundations for a Radical Reform*, Verso, London, 1992.

incapacitated, those who had lucrative jobs, those whose work was not income producing and those who did no work. It would not be the Government's role to specify what activities were acceptable nor what life choices were reasonable.

It is the simplest model to administer, because it requires almost no information collection, few decisions and minimal monitoring of entitlement.

Under the present income tested system, the effective marginal tax rates (EMTRs) for income support recipients increasing their private income are often between 65 and 100 per cent, while the top marginal tax rate for high income earners is 47 per cent. A nonmeans-tested scheme would reduce the high EMTRs for low income earners but would increase them for higher income groups, when taxes needed to finance such a system were taken into account.

As a United Kingdom report has pointed out,

*Welfare must be reformed to make work pay: if 80 per cent tax rates are wrong at the top, they are wrong at the bottom too.*³²

Basic Income should provide greater incentives to take up paid work than an income tested system because the net gain is higher. In an income-tested system the loss of income support is a potential disincentive.

There are also disadvantages of such a system. A universal payment would involve a high level of "churning", that is, turnover of funds through government. Social security outlays would be more than tripled³³ and tax increased to a similar extent redistributing from those above median incomes to those below. The churning effect would be minimised by the negative tax approach where actual transfers are made only to those whose tax liability is less than the minimum rate. The increase in expenditure and tax would be entirely contrary to the Government's present fiscal objectives.

A universal system removes the government's ability to impose reciprocal obligations, such as activity tests, on those receiving assistance. This would be likely to be strongly criticised as allowing those who choose not to work to be supported by those who do. On the other hand, without an income test, financial incentives to enter the labour force are higher.

³² The Commission on *Social Justice, Social Justice: Strategies for National Renewal*, Vintage, London, 1994, p.223.

³³ At June 1994, one-third of the resident population aged 15 and over received income support from either social security, veterans' pensions or student assistance. Paying everyone the average rate would triple this. However, possibly up to a quarter receive a reduced rate due to the income or assets test.

It would provide a single rate per individual. The counter argument to the neutrality noted above is that those with higher costs would be less adequately provided for. It is sometimes assumed, erroneously, that a universal payment would naturally remove all persons from poverty. How to set a rate of basic income for this purpose would be no less an issue than it is under current arrangements. To direct extra assistance to people with children, people with high housing costs, sole parents or people with disabilities would require Government to gather information on these circumstances and make an assessment of need and this would already be a departure from the simplicity for which the model aims.

Basic Income does not distinguish between those who cannot work and those who can. It does not compensate people for their workforce barriers, so the before tax differences in income are greater than under the present system.

A universal payment would place a lot more pressure on the integrity of the income tax system, as the redistribution is dependent on the accurate assessment of income for tax purposes. Both tax and social security income assessment have difficulty finding definitions of income that treat the self employed and employees equally. Under the dual tax/social security assessment of income the government can withhold payment where there is dispute about the level of private income. It is harder to collect tax in such circumstances.

Perhaps the most compelling reason not to introduce such a system is that it would redistribute the tax burden from low to middle income earners to middle to high income earners, assuming a flat or progressive income tax. A radical change in tax liabilities is not likely to be publicly acceptable, particularly among those whose taxes would increase.

A Guaranteed Minimum Income

The second model, in this paper called a Guaranteed Minimum Income³⁴, would be available to all subject to income and assets tests. All residents would have a right to protection against poverty regardless of their actions. The poverty alleviation focus would suggest that for this model, rates would vary according to need. The income test could be based either on individual or joint income.

As with the basic income model, no categorical eligibility criteria nor activity tests would apply. As entitlement would be based on income alone, there would be no scope to impose reciprocal obligations as a condition of payment, because there would be no differentiation between people with disabilities, people with caring responsibilities and the unemployed. It would cover all those who presently miss out, for example because

³⁴ The term Guaranteed Minimum Income has been used elsewhere to refer to both income tested and universal models of various kinds.

of waiting periods or because they are employed part-time or self-employed. It would be a low wage supplement.

This would involve additional expenditure, but would have the advantages of equity and administrative simplicity. The increase in expenditure, assuming no behavioural change, would of course not be of the order of magnitude of the basic income model.

As discussed elsewhere in this paper, some groups, such as sole parents and age pensioners, already have a payment that is income-tested but not related directly to the number of hours worked. If this arrangement were extended to all residents, the stigma of being identified in a particular category would be reduced, although the general stigma of being welfare dependent would remain, because assistance would still be targeted to the poor.

Like a Basic Income, this approach could be criticised as undermining work incentives, as the absence of activity tests and restrictive eligibility gives people a choice not to work, if they are prepared to live at the minimum income level. It could be difficult to gain public acceptance of the idea that income support should not be limited to people who are out of work due to circumstances beyond their control.

The disincentive effects would be much higher from this model, because unlike a Basic Income, it would result in high EMTRs at low income levels (as exist now) and less cost to high income earners. This reduces the gain from taking up low-paid jobs. If people had a choice to rely solely on income support and little to gain from taking up low paid work there would be no point in doing the latter.

An income tested general subsidy for the low income employed would be likely to have some effect on wage setting, subject to industrial relations constraints. An EMTR of say, 75 per cent, would mean that a reduction in wages would be 75 per cent offset by increased assistance and reduced tax. This might reduce the pressure on wage levels at the low end of the scale and encourage employers to shift costs to the Commonwealth through wage cuts. This has major implications for employment growth, profitability, adequacy and public outlays.

Any proposal for a single payment would raise the problem of standardising the different rates, income and asset tests currently used for pensions, benefits and Special Benefit, and removing the other variations between payment types. This would either add to the cost or reduce the entitlements of pensioners, but it would be desirable in itself to improve simplicity and equity.

A Conditional Minimum Income

The next model, a Conditional Minimum Income, would be a payment to all people meeting the income and assets tests, with rates according to need but subject to certain reciprocal obligations that might be imposed as a condition of payment. All residents would have **a right to protection against poverty, provided they met these conditions**. No member of the community would be left without adequate means of subsistence through circumstances beyond his or her control.

This model would be more complex than the two models above, and, like the present structure, would require the Department to gather information on personal income and assets, needs and circumstances relevant to the claimants' labour force capacity. Of the three single payment models, this would be the closest to the present system in outcomes for clients, but it would have a number of advantages over the present system in equity, consistency and logic.

It would be a single payment with an activity test for certain categories. That is, there would still be rules and conditions applying to different groups of applicants to assess their eligibility for exemption from the activity test or special consideration. Recipients would not, however, be split at the point of grant into activity-tested or non-activitytested payments and the activity requirements could therefore be more flexible and varied. For example, the activity test, in addition to the present range of activities, could be satisfied by caring for children or dependent adults³⁵ or low-paid employment. There could be scope for community work or even participation in arts or culture, within limits. Those who are incapacitated for activities through sickness or disability would be exempt. Those who do not fit the general categories could have conditions agreed individually, as in the present Newstart Agreements. There could be a part-time activity test for those who are not available for full-time work but whose circumstances do not warrant complete exemption.

It would however be simpler because entitlement would be standardised and transition between circumstances would be easier. It would also be more flexible to meet different individual circumstances because activity requirements could be designed around special needs rather than being determined by the legislative eligibility criteria for payment.

³⁵ This would be similar to the Participation Income Model suggested by Bettina Cass in *The Future of Income Support in an Open Economy: the Concept of Participation Income* in Victorian Council of Social Service and Good Shepherd Youth and Family Services, *Income Support in an Open Economy: Basic Income Revisited*, VCOSS, Melbourne, 1995.

As in the previous models, assistance would be granted on the basis of income, except that a non-payment period might be imposed if the conditions were not met. This model would not require the present complex rules determining which payment to grant and which payment a client should transfer to when his or her circumstances change, nor the complex procedures for changing payments. Not only would it provide a coherent general rationale for the system, but it would encourage consistent, integrated decisionmaking rather than the tendency for separate programs to diverge in their rules.

It would have the advantages of removing gaps in coverage and removing the stigma attaching to individual payment types. It would provide a low income supplement for workers, encourage equal treatment of people in equal need, regardless of the path by which they came to be in need, and provide scope to tailor supplementary services and payments to specific needs. The implications of a supplement for low income workers are mentioned in the section above.

A payment that provided guaranteed access based on need would not permit the Government to restrict eligibility to prevent people from becoming eligible for particular payments intentionally, for example to preclude payment to those who left employment voluntarily or to those who moved to an area of lower employment. These two rules now apply to eligibility for Job Search and Newstart but not to other payments. Sickness Allowance is not payable to people who have not lost income because of their illness. There are or have been a number of similar rules for various payments but many have been found either to be difficult to enforce administratively or to preclude the genuinely needy along with those for whom they are intended. A conditional guaranteed payment could require people to take certain actions but would not preclude them because of actions already taken.

An argument against a single payment would be that it is less apparent to the recipient and the community what the grounds for payment were. Some claimants prefer to be identified by their special category to differentiate them from the unemployed or other stigmatised groups. Under a conditional payment, however, the ground for payment would be need and the categorisation would still apply to their reciprocal obligations.

Some groups, in particular sole parent pensioners and disability support pensioners, have been strongly defensive of their freedom from the activity test. It would be necessary to ensure that moving to a single payment not weaken the principle of providing adequate support for those who were unable to seek work or had a good reason for not participating in the labour force, such as those caring for dependent children or adults. In fact there would be greater scope to modify the work test requirements for some who are now inappropriately subject to the activity test.

As with other single payment options, the different conditions between pensions and benefits would be a significant obstacle to amalgamation of existing payment types, although they have become a source of inequality and anomaly in the present system.

Again, the extension of income support to various low income groups who are presently excluded would increase costs as well as making the system fairer. This would however require that the means of assessing the needs of the self-employed be accurate, as this would be the largest group with income below the present cut-out points who are presently excluded.

6. RATIONALISATION OF EXISTING PAYMENTS

A number of the disadvantages of the present system could be solved by rationalisation of entitlement and conditions under the existing payments and standardisation of the administrative processes. This could also involve amalgamating existing payment types into a smaller number, accompanied by efforts to standardise various provisions across payments.

The objectives of such an exercise would be to simplify the system administratively, to make it easier for the community to understand and to have a clearer focus on the purpose of the payments. It would also address the complex processes of transferring people between payment types when there are small changes in their circumstances. Rationalisation could be guided by certain principles for an ideal system.

- **The total system should have a clear objective**, encompassing the objectives of individual programs.
- **Special conditions should apply to the client characteristic not the payment type.** Most characteristics are not confined to clients on a particular payment type. Mobility Allowance and Youth Disability Supplement are examples of assistance that is currently targeted by payment type rather than cost of disability. Widow Allowance, paid to older women with a long period outside the labour force, is not available to one who has been unemployed since her husband died unless she was over 50 at that time.
- **A coherent policy is needed on which clients are activity-tested, which have optional access to labour market assistance and which do not.** At present activity testing, the Job Compact, JET and the DRP are confined to particular payment types and are not related systematically to labour force prospects, needs or aspirations.
- **Reciprocal obligations required would be within the person's power to meet.** Examples might be looking for work, accessing potential sources of other income or repaying loans when income permits. Conditions that depend on a past event are unreasonable in a society in which members have a right to protection against poverty.
- **Rates of payment should allow a similar standard of living for clients** with different costs (for example household and family composition, housing type) within the constraints of administrative feasibility, financial sustainability and the need to maintain incentives. While people's needs might increase with duration of income

support dependence, the rate should not vary with eligibility category, assumptions about expected duration or judgements about the "deserving and undeserving" poor.

- **Income and asset tests would be designed to achieve the best balance between work rewards and incentives on the one hand and vertical equity and financial sustainability on the other.** We need to find out more about the incentive and disincentive effects of the income test structure on customers' behaviour. The differences between income and assets test for pensions and benefits for people of workforce age produce some anomalous results.
- **The taper rates would take account of the income tax rates** so that their combined effect on net income would be controlled. The effectiveness of the means test arrangements in providing incentives might differ according to the type of income and assets. For example, the treatment of earned income might take into account the relative effort and cost of obtaining it.
- **Activity tests, incentives and labour market assistance would be used to maximise the potential contribution** of all members of society through both paid and unpaid activities. If their purpose is to encourage and enable people to help themselves and to restrain expenditure, their relative effectiveness would determine which measure to apply to which group. The activity test would not be applied as compulsion for its own sake, nor would groups be excluded from assistance for reasons unconnected with their labour force potential.
- **Expenditure would be targeted as efficiently as possible to meet the objectives.** It would also be feasible to administer. This might involve trade-offs between targeting and complexity. Administrative feasibility and simplicity should be an integral objective of policy decision-making.
- **The system would be consistent with general social values.** While the diversity of social attitudes obviously limits the degree to which this can be achieved, there are some consensual values that the broad majority of the population would endorse.

To illustrate some of the avenues that could be explored in a process of rationalisation, options for amalgamation and areas where uniformity and consistency might be possible are listed below. These are hypothetical only as their implications have not yet been explored.

Options for Amalgamation

The distinction between **Job Search and Newstart Allowances** will be removed in September 1996, and Newstart Allowance will cover both short and long term recipients. Short-term recipients at risk now receive the enhanced labour market assistance originally envisaged for Newstart.

From March 1996, people receiving **Job Search or Newstart Allowance** who become temporarily incapacitated for work will remain on that payment, but be exempt from the activity test, instead of transferring to **Sickness Allowance**. This avoids the administrative inefficiency of transferring between payments for short periods. This will allow more flexible activity-testing for those who are able to work only part-time because of a temporary incapacity.

Another area for amalgamation is the family-role based payments, particularly those based on marital status. **Sole Parent Pension** and **Parenting Allowance** are both designed to give primary carers a choice to provide care at home or combine caring with paid work. All payments have a single rate, a sole parent rate and a married rate. As sole parents are entitled to the same rate on any payment, and are paid Guardian Allowance as part of the Family Payment, combining Sole Parent Pension with Parenting Allowance would not affect the rate of income support for either married or single parents. The distinction between these two payments is inequitable, administratively inefficient and places undue emphasis on marital breakdown, rather than on child rearing.

The Law Reform Commission found that the experiences of women receiving Sole Parent Pension were the main focus of most submissions on social security in a recent study of sex discrimination.

Submissions argue that the DSS's scrutiny of the cohabitation rule in the case of SPP recipients is more rigorous than for recipients of other pensions and allowances. This may be because of the nature of the pension and assumptions amongst the community and departmental officers about the stereotyped 'proper' role of women.³⁶

Most sole parent families occur through relationship breakdown and most sole parent pensioners reconcile or re-partner. The arrangements for transferring between these two payments are difficult and can seriously disadvantage the client. Most other payment types cover both partnered and single people, as marital status is taken into account in the rates and the assumption of income sharing. It is redundant to duplicate this at the level of the eligibility criteria. There is, however, the difficulty of amalgamating a pension with a benefit.

Payments for older women with long periods out of the workforce present more intractable problems. These include Widow B and Wife Pensions, Widow Allowance and Partner Allowance, all of which are based on age or date of grant and marital status (Wife Pension and Widow B Pension are being phased out). **Widow Allowance** and **Partner Allowance** are also based on time out of the workforce. A payment for women (or men) who have been out of full-time employment for a long period due to domestic

³⁶ Australian Law Reform Commission, Report No 69, Part II Equality Before the Law: Women's Equality, Alkjen Press, Sydney, 1994

responsibilities should continue in the unfortunate circumstances of a partner dying or the relationship breaking down. However, the discrepancies between these payments mean that this only applies if the recipient is female and such an event happens after she turns 50, even if she has not been able to obtain full-time employment since the event. Also, there is no corresponding payment for a person whose absence from full-time employment is for other reasons. The rationales of these payments need clarification. If they are to provide for those whose prospects of finding work are very low, then they need to be based on empirical evidence that they are well targeted and they should include others whose prospects are similar; but if they are to protect women who have followed the traditional division of roles they should be made more consistent with each other.

In the disability area, suggestions have been made from time to time that there is no reason for a distinction between long and short term incapacity and that **Disability Support Pension** and **Sickness Allowance** could be combined. This would be an alternative to merging Sickness and Job Search Allowances. There are administrative arguments against this approach. At present, the procedures for assessing eligibility are less for Sickness Allowance than for Disability Support Pension but reviews of continuing eligibility are more frequent and more stringent. This is more cost-effective than requiring a full CMO assessment before granting a payment for a person whose incapacity is likely to be short-term or, on the other hand, having three monthly full reviews for a person whose incapacity is long term and relatively stable. As with Sole Parent Pension and Parenting Allowance, this merger would entail combining pension and benefit.

Another option for amalgamation would be **Disability Wage Supplement** and **Disability Support Pension**. Disability Wage Supplement could be paid as a special class under Disability Support Pension.

Options to Improve Consistency

There are numerous differences between payment types that do not seem to arise out of different objectives or differences in needs or circumstances of the client groups. Most have come into effect through policies developed on a program basis.

Rationalisation between existing payment types would mean examining all the differences between payment types, and removing them unless there is a clear reason to retain them. In particular, where possible, special conditions should not apply to particular payment types but to particular client characteristics, whichever payment type they receive. Such a process might involve:

- **rationalising residence requirements** and standardising them unless there are strong reasons for differences;

- **standardising incentives** such as the earnings credit, employment and education entry payments;
- bringing the **benefit and pension rates for single adults without dependants** into line and reviewing youth rates with an intention of simplifying them;
- extending the benefit **income test treatment of couples** to pensions - that is, the sequential partner income test, where the income of each partner reduces that partner's entitlement, before affecting the other partner;
- reviewing the different **income and assets test free areas and taper rates** between pensions and benefits to determine whether they meet the policy objectives;
- reviewing the system of **waiting periods** for benefits to examine whether they are well targeted on the basis of need or whether they should be replaced with a more equitable way of containing costs;
- reviewing the provision of **different concession cards** for pensioners and beneficiaries and replacing them with different cards for short and long duration;
- looking for ways of streamlining **movement between payment types**, so that information gathered for one payment type can be used to assess eligibility for others, including, where possible, retrospectively;
- moving to a common approach to **bereavement arrangements** across payment types; and
- moving to a **common periodical basis** for payment.

7. CONCLUSION

While there are theoretical attractions to more radical approaches such as basic income and a guaranteed minimum income, it is unlikely that these would fit the present framework of community values, nor the Government's fiscal objectives.

The existing multi-payment system has advantages in that for recipients it targets the rate of payment according to need, which promotes adequacy and horizontal equity. It recognises the right of specified groups to be supported outside the labour market while encouraging others to improve their prospects of self-support. The income test enhances vertical equity and restrains outlays. It allows Government to control access to income support to avoid incentives to rely on public assistance for people who have other choices.

However it has a number of disadvantages:

- it has **gaps** in coverage for people in need who do not fit the specified criteria;
- it applies clusters of **assumptions** to recipients of different payments which can be inappropriate and stigmatising;
- it leads to significant **difference in treatment** of people with minor differences in need or circumstances;
- it is **complex**, resource intensive and hard to understand;
- it is not necessarily sensitive to the **circumstances of individuals** within large categorical groupings; and
- it does not easily accommodate **changes in individual circumstances** because of the necessity to transfer between payment types, which can be administratively time consuming.

In addition, the present system has a somewhat uncoordinated array of labour force incentives, barriers and obligations. A person who wants to participate in the labour force, particularly in part-time or casual work, can find his or her prospects quite different, depending on the payment type. On the other hand some are obliged to look for full-time work although their circumstances make it difficult to do so, because they do not qualify for one of the existing non-activity tested payment types.

The conditional guaranteed income model described in Part 5 would retain the advantages of a variable rate, means-tested and activity-tested system, while addressing many of the disadvantages of the present system. Within a single payment model there

could be a menu of conditions that could be selected as appropriate to make up an individual's entitlement. An unemployed sole parent with a disability would not have to choose between three available payment types, none of which took into account all three characteristics. Instead such a person could be given access to JET child care assistance, rehabilitation and finally the Job Compact. A single payment model would be simpler, with fewer irrelevant complications, and would avoid the problems presently encountered by clients whose circumstances change and who are required to change payment types.

There are, however, significant obstacles in the way of moving from the present structure to a single payment. The greatest of these is the dual system of pensions and benefits. There are a number of steps that would be worth taking for their own sake that would make such a transition easier to achieve in the longer term. These include amalgamation of some payment types and other measures to make the system more uniform or to ensure that differences meet policy objectives. Some of these are discussed in Part 6.

Some of the approaches considered in Part 6 would only be possible with additional expenditure and some would reduce the entitlement of some existing clients. Changes to the system would have to be consistent with general social values. While the diversity of social attitudes obviously limits the degree to which this can be achieved, there are some consensual values that the broad majority of the population would endorse.

In conclusion, the most feasible alternative model would be one that retained different payment rates, income and activity testing but where eligibility would be based on a general criterion of need, not on specified categories of circumstances. If it is desirable to move to a single payment structure, a long term strategy would be needed to remove existing differences between payment types and to formulate a clear rationale for the application of different conditions to different client characteristics.

MAJOR PUBLICATIONS FROM THE DEPARTMENT OF SOCIAL SECURITY

The Department of Social Security publishes three series of major papers through the Australian Government Publishing Service.

The **Policy Research Series** is the oldest and most established series within DSS. It enables the Department to disseminate information, data and analysis which stems from major research projects and evaluations, and provides a valuable source of primary material that would not otherwise be available to specialists within the academic, community and welfare sectors. While Research Papers sometimes include a range of policy options and recommendations about program development, the primary role of the papers is to table detailed project findings for public use.

The **Policy Discussion Series** is intended to facilitate such public discussion about more general policy issues. In some instances the papers focus on aspects of the social security system that may require review in the context of changing social norms. In other cases, papers look at specific policy options as a means of generating public discussion and feedback as part of the process of policy development.

The **Technical Series** is different to the Policy Research and Policy Discussion Series in that its primary purpose is to enhance the range of basic technical information available to people working in the academic and welfare sectors and assist people in understanding how the current system works. In time, the series will also provide teachers in a range of tertiary institutions with course materials for students in the wider area of social policy.

The three series are designed to complement the issues and functions of the **Social Security Journal**, which is published twice a year. The Journal has five sections, covering Major Articles, Social Security Notes, Book Reviews, Social Security Statistics and Project Notes. In addition to publishing a wide range of articles about social security issues and trends, authors cover processes and functions within DSS and new resource materials available in Australia. The Journal has a comprehensive listing of major research projects in progress in Australia and details about new books and reports.