Making Welfare Sustainable

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THERE is nothing mysterious about what is driving welfare reform. The general trends are easily identifiable from budget papers and national account data—the IPA Backgrounder *From Workfare State to Transfer State*[1] sets them out. The welfare state, and welfare dependency, have been growing at a rate which is simply not indefinitely sustainable. In 1970, less than 15 per cent of those aged 15 and over were on income support; now over 30 per cent are—and the upward trend continues.

Since 1983, the *scope* of government action has narrowed, while the *size* of government has continued to grow, with the latter driving the former. When the Whitlam Government came to power, taxes were 23 per cent of GDP: they recently hit a peacetime record of 31 per cent of GDP, yet the general government sector's rate of saving has fallen dramatically. The fiscal pressure from the increase in the welfare state has generally been greater than increases in revenue through taxes, economic reform and growth. Between the fall of the Whitlam Government and the election of the Howard Government, the accumulated net deficit on recurrent (that is, non-capital) expenditure for all levels of government was $119 billion or $7,000 per Australian.[2] Pensions and salaries were paid for by selling assets or borrowing money.

Under this sort of fiscal pressure, governments have been less and less willing to support mendicant industries. The job of industry is to provide revenue to support the growing welfare state, it is not to be a mendicant itself. Fiscal pressure has driven governments to rationalize government activities, to reduce liabilities and to increase economic efficiency in order to increase revenues and reduce non-welfare costs. That has led to *de-regulation*—to improve the efficiency of markets—and *privatization*—to pay off debts accumulated through rising expenditure, reduce infrastructure costs for industry and improve the efficiency of asset use and service delivery.

The Hawke Government used asset tests and the provision of family assistance to low-income working families to improve the targeting of welfare. This process has been successful, with the lowest tenth of income units having had the highest rates of income growth over the last 15 years—over 30 per cent growth compared with less than 15 per cent for the top income decile (all income deciles have experienced income growth).[3] There has also been increased delivery of welfare services through non-government bodies—most dramatically through the replacement of the Commonwealth Employment Service with Job Network. Nevertheless, the growing rate of welfare dependency has not been directly tackled.

From 1988 to 1998, excluding various forms of age pension, the total number of pensioners went up by almost a half, or 350,000, to over one million.[4] Disability pensioners increased by 260,000, or two-thirds, to over 650,000; while parenting payment (single) increased by 134,000, or 56 per cent, to over 370,000.

In the five years from 1993 to 1998, the total number of non-age[5] pensioners and other income support recipients (other than students) went up by almost 106,000, or six per cent, to almost two million, with the number on benefits directly driven by unemployment falling by almost 44,000, or four per cent. This occurred while employment grew by twelve per cent to 8.6 million and unemployment fell 19 per cent to 730,000.

So, in a five-year period when employment is going up and unemployment is falling, we still get a six per cent increase in welfare dependency (in line with the six per cent growth in total population).[6] The prospects when there is an economic downturn, and unemployment rises, are clearly worse.

The welfare system was originally designed to catch those who 'slipped through the cracks' of work and family support. With about two million non-age welfare dependants in a population of 19 million with 9 million employed,[7] it has clearly expanded way beyond its original intention. And it is continuing to expand.

Growing welfare dependency can only be effectively tackled by policies which target dependency directly—including those currently being 'warehoused' as disabled, sole parent and mature age recipients. The introduction of 'work for the dole' and the appointment by the Howard Government of the McClure Committee into welfare reform hopefully indicate that this is the next stage in policy.

NOTES

1 *From Workfare State to Transfer State: Where We Were and Why We've Changed*, Warby, Michael and Nahan, Mike, IPA Backgrounder, August 1998, Vol. 10/3.
2 In 1997/98 dollars.
3 Data from NATSEM in *The Australian*, Monday June 19, 2000, page 10.
4 Includes mature age allowees and mature age partner allowees, and widow allowees.
5 Also excludes (age) carers, (age) wife pensioners and veterans.
6 Population, employment and unemployment figures from the ABS (Cat. Nos 3101.0 and 6203.0), social security data from 'Social Security Statistics' in *Social Security Journal*, 1998/2, pages 211 ff.
7 Population for September quarter 1999 and employment for April 2000.

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