Social welfare finance: selected papers

Edited by Ronald Mendelsohn

Centre for Research on Federal Financial Relations
The Australian National University, Canberra

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CONTENTS

TABLES

TABLES (Cont'd)

TABLES (Cont'd)

FIGURES

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INTRODUCTION

Ronald Mendelsohn

The papers in this volume arose from a seminar series conducted in 1980 at the Centre for Research on Federal Financial Relations. Participants in the series, and deliverers of the papers, were academics and public servants. The collaboration was a fruitful one in that policy issues of immediate significance to Canberra's ministers and bureaucrats, which in earlier years have tended to be discussed behind closed doors, received an open and frank treatment.

In every case in this volume where an author is, or was, employed by a government department the views expressed here are to be taken as his own, and are not to be regarded as an expression of departmental government policy or opinion. The passage of time has also sometimes caused some issues or some statistics to appear a little behind the event.

The atmosphere of the seminar series was sufficiently productive of an interchange of balanced discussion on the financial issues behind the conduct of the Australian welfare state to encourage the carrying of the discussion on to a wider group, and a plenary conference on the same topic was held at the ANU in Canberra in December 1980. Papers from that conference are being published by George Allen & Unwin, Sydney, and will be seen to be complementary to these papers. Indeed some authors appear in both books.

Half of all government expenditure is now devoted to welfare - education, health, income security and the caring services. The voluntary sector, alone or in collaboration with government, provides a further major input. This expenditure, both in its economic and social aspects, is therefore a desirable subject for academic analysis. The nature of the material in this volume varies. Most of it can be regarded as economic in character, but some of it might be regarded as sociological in nature, or might be referred to as social administration material, or come under the somewhat vague rubric of the policy sciences.

The largest single group of papers deals with social security. The late and much lamented Tom Brennan, Professor of Social Administration in the University of Sydney, has a general paper (Chapter I) on the redistributive effects of social security. In Chapter II, Duncan Ironmonger of the Melbourne Institute of Applied Economic and Social Research contributes a paper similar to Brennan's in its attempt to break new ground, with a special emphasis on the role of transfers within the family in maintaining income security. Ironmonger's analysis once more highlights the failure of conventional economics to measure and analyze certain behaviour which bears all the marks of economic action except that it takes place outside the market and therefore escapes from the measuring rod of the economist and statistician. The unpaid work of the housewife is, of course, the most infamous example of this, with the diminution in the national income caused by the action of a man in marrying his housekeeper as the hackneyed example of that analytical failure.

The work of the young team from the Department of Social Security which forms Chapter III, and deals with the relationship between the Australian social security and personal income taxation systems, is of a technical nature and contains no explicit judgments on policy. The implicit deductions are, however, little short of alarming. The combined taxation and income security systems are shown to be highly interdependent and to form, willy nilly, a single whole, so that no governmental action in either field could reasonably be taken without careful weighing of repercussions in the other. The authors make no policy proposals, but the case for integration of the taxation and social security

systems which arises from their analysis is strong, indeed. The task for the politicians and administrators of devising policy changes without unanticipated effects seems overwhelmingly difficult, and simplification essential and urgent.

By the same token the case for action to establish a negative income tax, or a guaranteed minimum income scheme, such as Ronald Henderson proposed in 1975 and Peter Saunders analyzes in Chapter IV, seems convincing. Dr Saunders examines what has happened to poverty because of the increase in unemployment since 1973, and the level of pensions and benefits in relation to the poverty line. He concludes that poverty has increased and that the social security payments have remained below the Henderson poverty line. It is, of course, fair to point out the difficulties in any poverty-line construct, as the Social Welfare Policy Secretariat has demonstrated in 1982. Saunders' work, which was written before that, is particularly useful in teasing out the implications of GMI schemes and assessing their viability.

In general the four chapters on social security are complementary. They demonstrate the complexity of the Australian system and its slow approach towards a full guaranteed minimum income ideal. But one cannot avoid the thought that it could all be done with much greater administrative efficiency, much less overlap with the taxation system, much less unintended result, and, if you are prepared to subscribe to jargon, much greater target efficiency.

The two papers on health, Chapters V and VI, treat the subject comparatively. Dr Deeble is an economist who was associated with the planning, development and administration of the Labor government's scheme of national health insurance. In Chapter V he views the finance of health from outside our system, as a comparative problem in federalism. Dr Richardson, also an economist, examines the international evidence on the costs and benefits of health care services in Chapter VI.

Dr Deeble's emphasis is historical and federal. He deals with the Labor Medibank scheme and its Liberal government successor schemes, with particular emphasis on their consequences for federal-state relations. The record has its considerable interest from that viewpoint, but it must also stand as a prime example of improvisation for short-term ends, each step carrying its own burden of almost automatic retribution from unpalatable reality. A longer-term penalty is the developing scepticism of the Australian public over any type of public health provision, exacerbated by a decline in the reputation of the medical profession. Some of this latter may be due to the upward fee drift since 1970, which Deeble attributes in part at least to the fee-for-service system. He quotes figures showing that between 1973 and 1976 GPs' hours worked did not increase, but that they saw 11 per cent more patients, whereas specialists saw no more patients, but the length of their patient contact fell 8 per cent. Nevertheless all the changes and controversy had surprisingly little overall effect on the delivery system or on trends in expenditure, though the change from private to public financing of medical services was associated with higher costs. Since 1976 Deeble believes that the modifications to health insurance policy reflect a progressive withdrawal of Commonwealth responsibility. This editor cannot forbear to comment, however, that while there certainly should be a substantial degree of state autonomy in health matters, continuing federal intervention is likely for various reasons, cost containment being an obvious one, while the Australian Labor Party's plans, if it regains power, would almost certainly involve a resumption of the leading role which it previously conferred on the federal government. Australian health policy has become highly politicized, and the era of consensus and pacification is not yet.

In Chapter VI Dr Richardson advances the health discussion by adducing international evidence on health costs and benefits, using statistical methods of some complexity. To descend well below his level of conceptualization, it seems that as a country grows richer it spends more on health - perhaps the equivalent of moving from a Mini-Minor to a Mercedes. Of course both

automobiles get one from place A to place B with the aid of four wheels, and there is no real convincing evidence from the Richardson study of twenty-four OECD countries that national income, number of doctors or hospital beds are closely correlated with mortality, either infant or adult. There are, of course, other possible reasons for additional expenditure on health care, such as reducing morbidity amongst the elderly or alleviating crippling conditions in children.

Dr Bethune's Chapter VII asks who are the housing needy and what level of assistance should they receive. He believes that post-war Australian housing assistance - which means, effectively, all public housing policy in history, because before 1945 what housing policy there was had minimal effect - was too ambitious in its target group and the level of benefits it tried to give. Those in greatest need suffered in consequence. They should be given higher priority in allocation of public housing, a policy more likely to be effective than an attempt to obtain a large increase in public funding. But Bethune is pessimistic: 'It may be that given recent levels of funding, it is only feasible for public housing to fulfil a narrow role. However it is also likely that arguments for a narrower role will themselves lead to reduced funding.'

There is no question that the bright promise of the 1945 Commonwealth State Housing Agreement has been dimmed, and indeed is in danger of extinction. This is especially lamentable in view of the much more restricted prospects for housing families of lower incomes, even those distinctly above the poverty line, which the high interest rates of the 1980s have occasioned. Here the sweeping survey by Mr W. J. Harris in Chapter VIII is of considerable value. In setting out to deal with the broadened Housing Agreement of 1978 he found it necessary to retrace the full history of the Agreement and evaluate its effects. Without doubt the Agreement has provided housing for a large number of Australian families with restricted incomes. Without doubt, too, many received benefits long after their acute need for them had passed, and the policy of selling dwellings originally built for rental reduced the housing stock unduly and removed from governmental hands a most useful buffer against distress in times of community crisis. Harris' survey of the terms of the 1978 Agreement shows it to be an enlightened document (due in no small measure to the efforts of Alex Ramsay, head of the South Australian Housing Trust, who died before its final completion).

But it is of no use that State housing authorities have been encouraged to innovate and to concentrate their efforts on the disadvantaged if the funds that would permit them to do those things have been choked back to a trickle. Public housing policy is one of the areas in which Australia has reacted to economic adversity since 1976 by counterproductive behaviour. The desirability of increased public investment of a pump-priming nature and the special necessities of the urban and rural poor alike now call for a return to the commitment to welfare embodied in both the 1945 and 1978 Housing Agreements.

Dr Davis in Chapter IX explores some virgin territory. He subjects the rather remarkable Australian institution of long-service leave to a long-needed analysis, and suggests ways in which it could be made to perform positive economic and community functions. His proposals are both ingenious and idealistic. Unfortunately they come forward after the scheme for long-service leave has been in place without any strings attached for some decades. To place conditions on it now will involve removing a particularly succulent bone from an active, vigilant but not necessarily long-sighted industrial dog. Davis obviously realizes this, and he proposes sanctions to enable his scheme to work. It could undoubtedly do so if it attracts some effective friends and advocates.

In the last paper, Chapter X, Professor Western brings the skills of the sociologist to an examination of the effects of community health centres in Queensland. As is well-known, evaluation of social policies has become both an active and a controversial matter in the United States. On the one hand it

seems self-evident that social programs should be subjected to analysis as to whether they have proceeded along the lines proposed for them, and whether they have been successful in those aims or even in others which may be regarded as an acceptable substitute for them. On the other, efforts at evaluation have had had a dismal press. All too often the analysts have reported either that results have been disappointing or negative, or that unanticipated unfavourable effects have occurred, or at the best that it is uncertain whether the programs have been successful or not. The net result has been a considerable decline in public belief in the efficacy of social intervention.

The next stage has been a counter-attack on the evaluation 'industry' on the grounds both of its methodology and ideology. Part of the trouble may be the shortness of time-scales, which may need to be decades long, and part may be the necessity to take into account large numbers of apparently extraneous factors.

In some ways John Western's study illustrates this controversy. He was given the opportunity to evaluate community centres in Queensland, a state where the government deliberately changed the aims of the federal program by excluding community consultation and community involvement. How far this changed the program in ways vital to its success cannot be certain.

Western's study contrasts two experimental areas, Ipswich and Inala, with comparison communities, the latter control areas being ones with no community health centres where health care was delivered in the traditional manner. Did the community centres succeed in raising health levels in their areas above those of the control areas?

At least his results are unequivocal. The new centres did not have that favourable effect, and indeed might be thought to have had a counterproductive effect. For example ex-nuptial pregnancies are an accepted predictor of neonatal mortality. Inala, which before the introduction of its centre had a high ex-nuptial birth rate, continued to do so although the number of doctors in the area almost doubled.

In one sense Western's results are shattering. Health centres have not proved their worth. In another sense one must ask whether the time-scale was long enough, and whether additional unanticipated (and perhaps favourable) results are occurring, or can be expected years ahead from now. Is it too soon to close the books?

For the essays taken as a whole it can be claimed that in the general field of social policy they have helped to advance knowledge and to substitute facts for rhetoric. It is also patent that the subject is a hard and complicated one, and that many more advances in methodology and in the sheer volume of analysis are needed.

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October 1982 R.L. Mathews

PART ONE

SOCIAL SECURITY

I THE REDISTRIBUTIVE FUNCTION OF SOCIAL SECURITY

Tom Brennan

I.1 INTRODUCTION

Several writers simply assume that social security programs are necessarily redistributive. For example, Cutright (1967) writes 'The percent of Gross National Product allocated to social security programs was taken as a measure of the national effort to redistribute income through government programs'. Others, like Downing (1965) say quite clearly that whether these programs have this effect or not, they certainly ought to have, and that any arrangement which does not have the effect of transferring resources from the rich to the poor does not deserve to be referred to as a social service.

> 'I want all social services in this narrower sense to be financed out of consolidated revenue. On the assumption that a substantial part of that revenue is raised by graduated or progressive taxes on personal incomes and deceased estates, the system of social services then becomes a quite powerful and therefore to me attractive instrument of redistribution of income.' (p.161)

Still others (George 1973) argue that though particular programs are presented as redistributive they are in fact not redistributive at all in the way described but have the effect of supporting the rich at the expense of the poor, i.e. the opposite effect to what ought to be their 'proper' purpose.

Clearly then, what the effect of social security programs is and what it ought to be are important questions. It is for that reason a question on which most people have an opinion; including social work teachers and students many of whom probably see the social security arrangements of their own country as providing the foundations and the context in which they operate.

Unfortunately the analysis which is required before any firm answers can be given to questions about the redistributive function of social security in even one country is extremely complex. The complexity of the analysis results from the complexity of the system itself and it is not surprising that most studies give only tentative answers which then have to be surrounded by numerous qualifications. It is possible in Australia, for example, to strike a net balance between what particular income groups pay in direct tax and what they receive in benefits, and this would then seem to be the end of the matter. But there are enormous problems which this approach hides and if we are interested in exploring the redistributive effects of the whole social service system it is quite inadequate. There are not only the problems of definition, double counting and overlapping, which occur in many problems of public accounting, but there is the basic problem of what should go into the account in the first place. Here is one example of a transfer which would have to be fitted into the account if we really wanted the account to be complete.

In Australia over recent years it has been the practice for federal government to subsidize the building of accommodation for the aged - sometimes $1 for $1, sometimes $2 for $1 and for a while $3 or $4 for $1. By making a donation of say $10,000 to the appropriate charity a couple could thereby acquire a house worth $30,000 or $40,000 for use in their lifetime - a considerable subsidy which would not be included in the balance sheet of taxes and benefits of the kind just mentioned.

All through the community there are similarly hidden or 'hard to see' subsidies in the form of tax concessions on housing mortgages and subsidized building societies, houses owned by employers and let at nominal rents to their

employees, which constitute a set of additions to income and which are financed partly from income tax. These transfers would not normally go into the balance sheet either, though many people would argue that they should. We would have to take account as well of the activities of the various State Housing Commissions which build and let subsidized accommodation to another set of beneficiaries. And so on!

What really ought to be brought into account in the 'heroic enterprise' which seeks to make a grand balance (Scotton and Ferber 1980) is an enormous problem, and one to which we can make no contribution here.

Another kind of problem is that this kind of enterprise, heroics and all, has to assume that the original distribution of incomes before the new balance of taxes and benefits is taken would have been the same if neither taxes or benefits existed. We can guess that many of the incomes are what they are simply *because* taxes at a particular level had to be paid on them and there is no way of knowing how differently incomes would in fact have been distributed if there were neither taxes nor benefits. So we cannot know what is the effect of these taxes and benefits. Some writers have argued that the increasing amount in many countries which is being applied to an allegedly redistributive social security system has barely served to counter the market forces which far from decreasing inequality would without social security have enormously widened the gap between the haves and the have nots. We don't know that either! We cannot argue that without social service transfers income inequalities would have widened any more than we can argue that the present range of inequalities which do apply are produced by 'market forces' to counter the effects of attempts at redistribution via social security.

Nevertheless, and difficult though it is, students of the topic do want to make some assessment of the situation and will continue to make assertions about it based on inadequate analysis and incomplete information. So the question arises as to whether in default of full and complete answers some approximate and partial answers to the large questions about the redistributive function of social security can be attempted which are not too misleading. This is a common problem in social work education where students have to try to understand the broad outline of problems which can only be understood properly in the terms of some other discipline like economics or psychology or sociology. The rest of this chapter argues that some of these approximate answers can be given for Australia, and that it eases rather than exacerbates the difficulties to attempt these answers by comparing some of the features of social security in Australia with those of systems in other countries.

The first step is to take a limited definition of the problem and to make it clear that we are dealing with social security and not with any of the other social services.

Referring now only to Australian data, the work of the Taxation Review Committee (1975) provides the most manageable evidence. Table I.1 is Table 4 of that Committee's 1975 report.

Reading from left to right Table I.1 shows for each of eleven sizes of income what happens when benefits, which in this table include child endowment and educational scholarships in addition to the payments normally defined as social security are added to the original income and what happens when taxes are deducted. It is clear that although families at all levels receive benefits, those at the lower income levels receive many times their original income in benefits while those further up receive relatively little either in absolute terms or relative to the size of their original income. Taxation, of course, works in the opposite direction, those at the bottom paying little and those further up paying absolutely and relatively more. Somewhere in the third line of this table are the families which break even in that they pay in tax what they receive in benefits (8 per cent of income); those below that point gain and those above it lose. There is nothing very surprising about this situation.

Table I.1

INCOME, BENEFITS AND TAX: MEAN VALUES AND PERCENTAGES

Range of original income	Mean original income	Mean gross income	Mean benefits	Mean disposable income	Mean tax	Benefits as per cent of original income	Tax as per cent of original income
$	$	$	$	$	$	per cent	per cent
0- 1,000	134	1,111	977	1,100	11	729	8
1,000- 1,999	1,514	1,822	308	1,731	91	20	6
2,000- 2,999	2,537	2,732	195	2,531	201	8	8
3,000- 3,999	3,454	3,610	156	3,292	318	5	9
4,000- 4,999	4,422	4,582	160	4,114	468	4	11
5,000- 5,999	5,416	5,573	157	4,887	686	3	13
6,000- 6,999	6,461	6,591	130	5,753	838	2	13
7,000- 7,999	7,433	7,591	158	6,523	1,068	2	14
8,000- 8,999	8,374	8,517	143	7,260	1,257	2	15
9,000-10,999	9,936	10,115	197	8,671	1,444	2	15
11,000+	16,515	16,729	214	13,401	3,328	1	20
All families	3,896	4,183	287	3,725	458	7.37	11.75

The taxation system is supposed to be progressive and the distribution of cash benefits is supposed to work in the same direction. (Confusingly though strictly correctly this latter is sometimes referred to as a 'regressive' distribution. I intend to refer to systems which redistribute from rich to poor - whether arrangements for funding or for payment - as 'progressive', i.e. if they operate in the same direction they will both have the same label.)

If we wish to consider the degree of equality of incomes either before or after taxes and benefits are accounted for there are various measures which can be used. The Review Committee itself produced the following table (Table I.2).

Table I.2

INEQUALITY MEASURES

	Original income	Gross income	Disposable income	Disposable Income + imputed rent
	%	%	%	%
Share of -				
Bottom quintile	2.92	6.31	6.77	7.53
Top quintile	40.98	38.94	37.68	36.54
Top 5 per cent	15.60	13.99	13.99	13.20
Top 1 per cent	5.28	4.60	4.60	3.97
Concentration Ratio	.368	.321	.305	.287

So, the bottom quintile (the poorest 20 per cent of the population) gets a larger proportion with each successive definition of income reading from left to right. The addition of benefits more than doubles its share, from 2.92 to 6.31, taxation raises it again (to 6.77) and the addition of imputed rent still further. The top quintile (the richest 20 per cent of the population) gets correspondingly less at each stage. Similarly with the two measures for the top

5 per cent and the top 1 per cent. There is one other feature of the table which is particularly interesting in the present context. On each line the biggest change, reading from left to right, is between the first and second columns. That is, it is the addition of benefits to original income rather than the differential effect of a progressive taxation system on that income which makes up most of the transfer.

This is borne out by the concentration ratio at the bottom of the table which shows that each of the steps from the original distribution moves in the direction of greater equality - again the biggest contribution being made by the addition of cash benefits. And incidentally, the effect of adding to income imputed rents from owner occupied houses *increased* rather than decreased, (against expectations) the share of income going to the bottom quintile of families, since 'Home ownership is disproportionately high among families in the lower income ranges' (Taxation Review Committee 1975, p.133).

Two things at least are clear from this analysis, both of them important. Firstly, the system of benefits in Australia centred mainly on social security is indeed redistributive, as was intended, and secondly its effect in this direction is greater than that of the progressive income tax system. One might also add from this evidence that its redistributive effect is almost certainly greater than is indicated by Table I.2. The table seeks to show the net position for various income groups when cash benefits and income taxes are allowed for. The benefits are, of course, paid for out of taxes, but so are many other things and the total raised by taxation is more than 50 per cent higher than the total of benefits. So, even if there were no cash benefits *some* income tax would still have to be paid and the 'break even' point with reference to benefits is therefore at a higher level of income than that indicated.

What else can one say, either about the Australian arrangements or any other? One can certainly not say, as Cutright (1967) appears to say, that the per cent of GNP allocated to social security is a measure of the extent of redistribution as that term is normally understood in this context. It may or may not be, depending on how funds are raised in the first place. It is quite possible for a social security system to collect a very large proportion of GNP and to redistribute it as benefits to exactly the same category of people who contributed it in the first place, each occupational or income group, for example, being self-contained in its funding and paying out. The redistribution would then simply be from those without children to those with, or from those in the work force to those who had retired and who had already in their turn supported their seniors: a horizontal rather than a vertical redistribution. So, it *need* not be true as Cutright (1967, p.183) argues that

> 'A nation with a relatively high per cent of its GNP allocated to social security programs will be a nation in which income distribution will be strongly altered in an equalitarian direction. Conversely, a nation with a low proportion of GNP devoted to social security programs will be a nation in which the distribution of gross disposable income is very little altered.'

The reason why one can have some confidence that the Australian figures which have just been discussed do mean what they appear to mean is that the Australian system is relatively simple. All major cash benefits are distributed on the basis of a means test, i.e. progressively, and are financed out of an income tax which is applied to the whole population and is also progressive. It is these arrangements rather than the percentage of GNP involved which accounts for the redistributive effects. And as will be shown below when the Australian arrangements are compared with those of other countries, the quality of arrangements adopted does not go with a particular level of spending on social security.

I.2 PROGRESSIVITY OF FUNDING AND BENEFITS

To test this relationship it is necessary to devise a simple framework by which the arrangements for other countries can be compared with each other and with those operating in Australia. First, as regards funding the most obviously progressive method of financing a social security system is that used by Australia and New Zealand, i.e. out of general revenue from a progressive taxation system whereby those with high incomes pay proportionately and not just absolutely more. The least progressive method would be for social security to be financed out of equal contributions from individual income earners no matter how high or low their income, a system which would obviously bear heavily on low income earners. Slightly more progressive than that would be a system which collected an equal *proportion* from each earner, with an upper ceiling beyond which contributions would be equal. More progressive still would be to remove the ceiling. Still more progressive would be to supplement this fund from general revenue raised by income tax.

The main point to be made here is that the characteristics of funding arrangements can be used to construct a Progressivity of Funding Scale and if the typical or dominant characteristics of each country's arrangements can be known *countries* can then be arranged in rank order according as their funding arrangements are more progressive or less progressive.

The main points in the scale which has been adopted for this exercise are as follows:

Progressivity Scale - Funding

Most Progressive	-	Funding from general revenue from progressive tax system
		Proportionate contributions with no collection ceilings
		Proportionate contributions with exemption for low incomes
		Proportionate contributions with varying proportions and ceilings
		Proportionate contributions with contributions from other sources (employer, government, general revenue)
		Regressive proportionate contributions
Least Progressive	-	Flat rate funding

Similarly a scale can be constructed which allows benefit payment arrangements to be put into a rank order of progressivity. The most progressive method of making payments would obviously be to pay high benefits to those with least income and the least progressive would be to pay benefits proportionate to income or in the form of income tax relief so that those on the highest income group (who would also be those paying the highest tax rate at the margin) would benefit most.

The main points on this scale, which has been constructed from arrangements actually operating, are as follows:

Progressivity Scale - Benefits

Most Progressive	-	Flat rate means tested dependants' allowances
		Flat rate no means test dependants' allowances
		Flat rate plus incomes-related segment, means tested
		Flat rate plus incomes-related segment, no means test
		Incomes related and means tested (with varying ceilings)
Least Progressive	-	Incomes related, no means test

I.3 RANKING THE COUNTRIES

The main characteristics of each country's system have been used to draw up two ranks - one for funding and one for benefits. The process can obviously not be very exact and whatever rank order has been given to any particular country it could obviously be challenged and would be changed if different weightings were given to different features. It is unlikely, however, that countries placed near one end of the scale would shift their position very far in the other direction or, perhaps more important as it turns out, would shift their relative positions in opposite directions on the two lists. At this point it was necessary to make one further important modification. That is that since most countries do not have exactly the same arrangements either for funding or for paying benefits over the whole of their range of social security provision, it was necessary to describe the arrangements for a single provision - aged pensions - and the rankings which follow were constructed from these descriptions. The justification for this is that in every country examined aged pensions comprise by far the largest item in the social security bill, ranging from 39.4 per cent for Canada to 79.5 per cent for Austria, and on average comprising 54 per cent of that bill (OECD 1976).

So, to give some examples of what went into this ranking, Australia and New Zealand were given the place they hold on the scale for funding because they are the only countries in the list which finance all their security benefits from general revenue collected via a progressive tax system. On the benefits side they both have flat-rate benefits, paid after a means test with a dependants' allowance.

In Austria on the other hand and near the other end of both scales insured persons and their employers each pay 8.75 per cent of wages or 8.5 per cent of salaries with a ceiling for contributions which cuts out at 157 per cent of the standard wage. That is, income earners above this level pay a fixed amount. In return as benefit, contributors receive 30 per cent of their average earnings during the last five years with a supplement for lengthy contributors and an additional 5 per cent for each dependent child. The government makes up any deficit in the operation.

Ireland is placed where it is (near the top) in the benefits scale because it pays a flat rate with a flat rate dependants' allowance, but not at the very top because it has no means test. On the funding side, however, it raises its funds from a flat rate contribution by employees and employers but excludes high income employees from the scheme. It is not at all clear whether this should

put it at the bottom of the scale below, for example, countries which like Belgium and Austria collect a declining proportional contribution from employees with high earnings. As mentioned already there could be some dispute about the exact place of any particular country but probably not about its general position in the scale.

With all these qualifications and shortcomings the exercise produced the two listings of the 16 countries of the OECD for which information was available as follows:

		Funding	Benefits
Most Progressive	-	New Zealand	Australia
		Australia	New Zealand
		Denmark	Netherlands
		Finland	Ireland
		Italy	Denmark
		Canada	U.K.
		Germany	Canada
		Netherlands	Sweden
		Sweden	Finland
		Japan	Japan
		France	U.S.A.
		U.S.A.	Germany
		Austria	Italy
		Belgium	France
		U.K.	Austria
Least Progressive	-	Ireland	Belgium

A few observations are worth making on the two lists, and one further test applied to it.

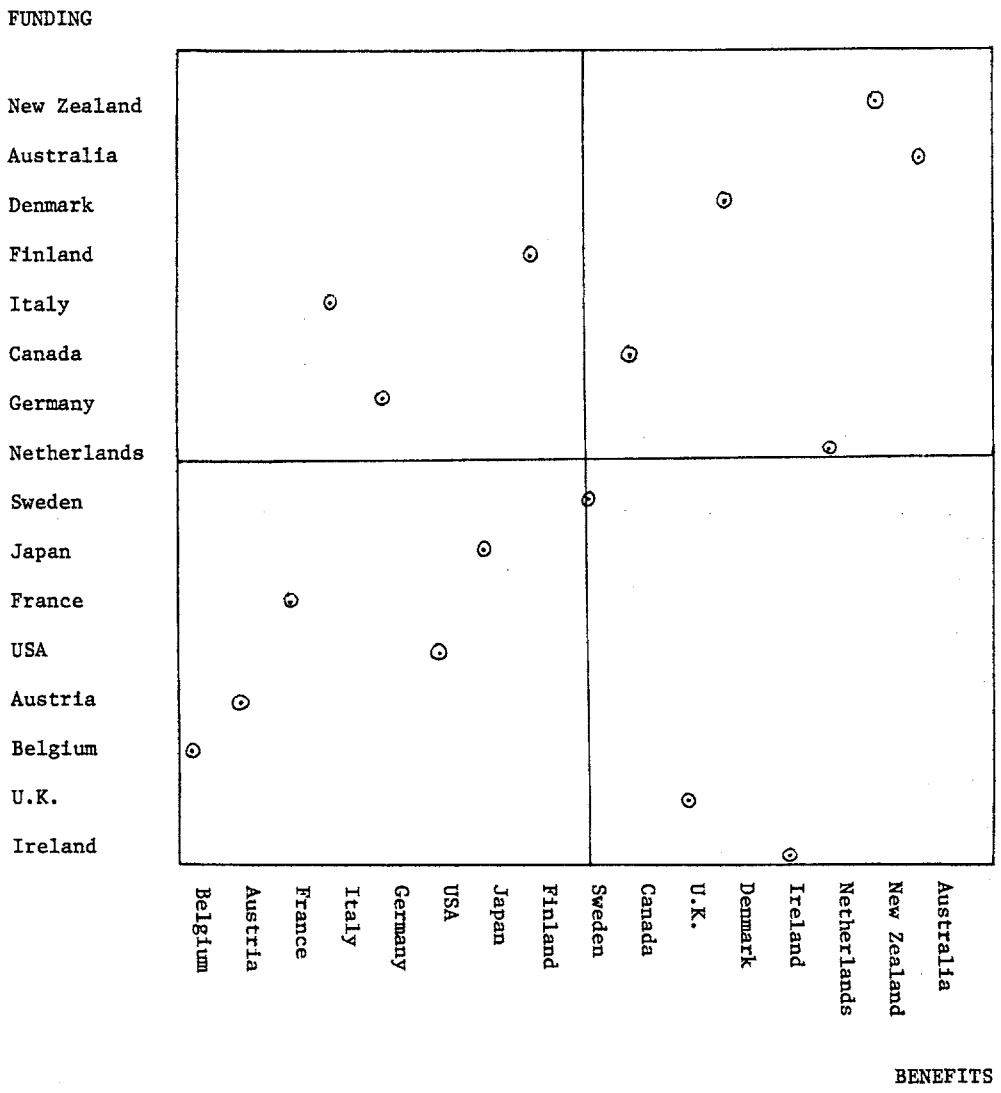
There is a rough correspondence between the rankings. Australia, New Zealand and Denmark are at or near the top of both lists while Austria and Belgium are at or near the bottom of both. If we arrange the two lists on the axes of a graph (as in Figure I.1 below) this rough correspondence can be shown more clearly. The main countries which appear to vary markedly in the relative progressivity sides of their arrangements are Ireland and the U.K. where the apparent progressivity of their benefits arrangements is matched by the least progressive of all funding arrangements. In their case the net effect is not particularly redistributive and the British and Irish systems probably merit the criticism levelled at them by George (1973). The rest appear to score consistently high or low in both aspects.

I.4 SUMMARY

We started off with a discussion about the assumed redistributive effect of social security. We know now that Australia (and incidentally, New Zealand) has a system which looks as though it would have a substantial redistributive effect through the operation of both the funding and the payment arrangements. We also know from the balance of benefits and tax figures discussed at the beginning that in the case of Australia the arrangements not only look as though they would do this but that they do in fact do so. We also know that the arrangements of some other countries look quite different. We can therefore now test whether the proposition we started with is likely to be true, i.e. that those countries which spend a large percentage of their GNP on social security are likely thereby to effect a substantial redistribution of their populations' incomes. To make this test we may use either the percentage of GNP spent on all

Figure I.1

PROGRESSIVITY OF FUNDING AND BENEFITS ARRANGEMENTS



social security provision or simply the percentage spent on age and invalidity pensions - since it is the characteristics of those provisions which were used to characterize each country. The first figure varies from 2.8 per cent for Japan to 15.3 per cent for Austria with Australia among the 'laggards' at 4 per cent . The second figure is 1.83 per cent, 9.54 per cent and 1.85 per cent respectively - again with Australia nearer the bottom than the top (OECD 1976). Whichever measure is taken the results are broadly the same, as can be seen from Figure I.2 below. The higher spending countries do *not* have the most obviously redistributive arrangements and in the case of the very highest spender, Austria, it has nearly the *least* progressive system of both funding and benefits. Australia by contrast, though one of the low spending countries or 'welfare laggards', has apparently the most progressive arrangements. The other 'welfare laggards' in terms of spending (all outside Europe), Japan, Canada and the U.S.A., are somewhere in the middle of the league as regards the progressivity of their arrangements.

So, the proposition we started with and which appears to be implicity accepted in many discussions about the effects of social security - whether of genuine enquiry or part of the 'welfare backlash', is just not to be accepted.

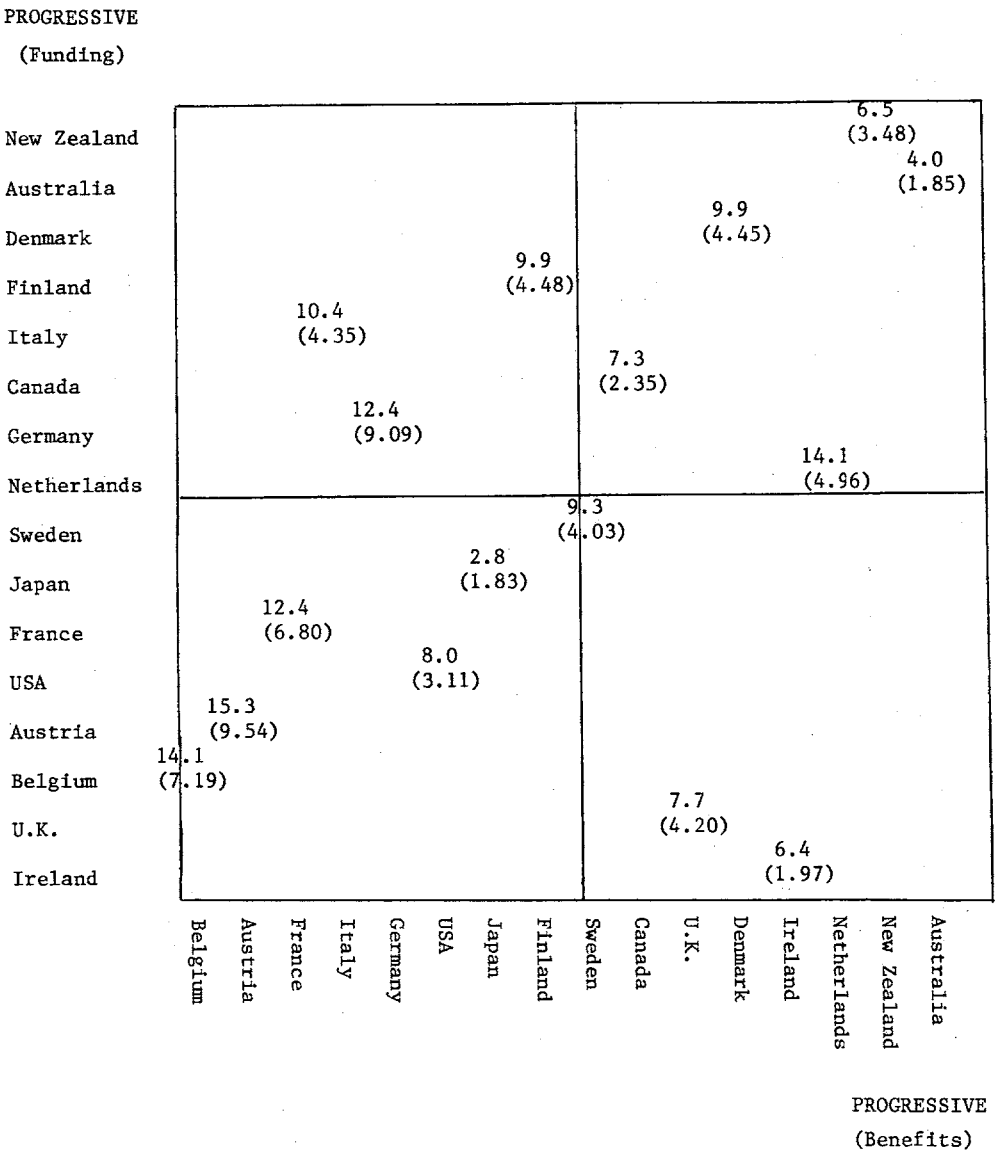
If we know what is *not* true, are there any positive conclusions which can be drawn? There are at least two. The first is relevant to the whole range of studies which seek to 'explain' variations between countries in the amount spent on social security. From time to time opposing hypotheses have been put forward; that general revenue funding assisted the growth of spending on social security and (the opposite) that it was likely to encourage the backlash and inhibit spending. Taira and Kilby (1969) in an early study tested the size of the general revenue financial component on the percentage of GNP going to social security for roughly the same group of countries as are discussed here, and found a low (around .5) and negative correlation. Now, the extent of general revenue funding is, of course, only one half of the 'progressivity' picture. But the Taira and Kilby results along with the argument presented here suggest that the methods of funding and payment *are* important and ought to be resurrected for examination.

Not that a re-examination will tell us more about the main variations in the amount spent on social security. We know what these variations depend on. Other studies which can't be discussed here show clearly that nigh spending on social security is probably best accounted for by the demography of the population being catered for and by how long the system itself has been running: that is, that the reasons for high spending are probably the result of complex historical processes, but are more or less fully 'explained' by these two indicators. But the arrangements for funding and payments are worth re-examining in their own right and as part of the process of understanding the backlash. The 'backlash' is not the expression of people arguing that they don't want to put aside such a large proportion of their income for their social security: it is that they don't want to put it aside for the security of *others*. They may not be arguing against 'welfare' but against 'redistribution'. Austria, for example, has a very large amount of one but apparently very little of the other.

This raises the second positive point. Almost all comparative studies on social security spending concentrate on the proportion of GNP *spent* as the interesting characteristic of each country's arrangements. What has been said now suggests that it is the proportion which is *redistributed* which ought to claim our attention. What is almost certain is that there will be a bigger variation in this figure between countries than in the one which is usually examined. Governments may, as is often stressed in these studies, be adopting increasingly similar policies on how they spend their money. The interesting variation is likely to be in *whose* money it is.

Figure I.2

PERCENTAGE OF GNP SPENT ON INCOME MAINTENANCE PROGRAMS AND AGE PENSION BY PROGRESSIVITY OF FUNDING AND BENEFITS ARRANGEMENTS



Note: First figure for each country is percentage of all social security expenditure to GNP
Second figure (in brackets) is percentage of age and invalidity pensions to GNP

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II INCOME SECURITY AND THE FUTURE

Duncan Ironmonger

II.1 INCOME SECURITY

What is income security? Who is it for? Who has it? Is it a desirable objective? If it is, how do we achieve it? How do we know when the goal has been reached? These are the sorts of questions that spring to mind in thinking about income security and the future. They involve getting down to some fundamentals and some statistics.

For fundamentals I start with the first important principle which influenced the work of the Commission of Inquiry into Poverty (Vol. I, 1975, p. 2).

> 'The first principle is that every person has the right to a basic level of security and well-being and all government action should respect the independence, dignity and worth of every individual.'

The linking of 'security' and 'well-being' is interesting. In so far as 'security' refers to 'disposable income' and 'well-being' refers to 'consumption of goods and services', we could interpret the first part of Henderson's principle in the economist's terms as:-

> 'Every person has the right to a basic level of disposable income for consumption of goods and services.'

Income security could be seen as providing a minimum level of disposable income below which everyone's income should be prevented from falling. Rules for the measurement of income, particularly in regard to the period over which the observations are to be made and the treatment of the sequence of receipts, and rules for the establishment of the appropriate basic level of minimum disposable income will be needed if this principle is to be put into practice. Various measurement rules are used in our present income security systems - income tests for aged pensions, work tests and income statements for unemployment benefits, and so on. These measurement problems were tackled by the Australian Bureau of Statistics in the income survey carried out for the Commission of Inquiry into Poverty and in subsequent surveys.

And yet I feel something is missing. What is it? Why my unease at the current debate about the present systems for income security and the main contending proposals for their improvement? My unease lies in two directions, not unrelated. The first is that the present systems of delivery of income security seem to be focused on adults and the aged not on children and youth. To me the problems of security for children and youth are far more pressing than those for middle aged adults and the elderly citizen. The second is that we lack a means of continuous assessment of what the problems are and how we are going in tackling them. We have regular publications of 'Quarterly Estimates of *National* Income and Expenditure' to see how we are going in aggregate. We do not have regular publications of 'Quarterly Estimates of *Family* Income and Expenditure' so that we could monitor the situation of the various types of families and of the various sorts of individuals within those families - children, youths, parents, grandparents.

Because we do not have such regular and current assessments of incomes and consumption of families, and of children, adults and so on we cannot say whether I am right or not on my first point - the relative need to improve the income security of young people. And because we don't have such regular assessments it seems to me we cannot resolve in a rational way the outstanding issues between the various income security reforms currently on our agenda. The lack

of an adequate framework for regular assessment of the situation of families, and of individuals within families, means that all we can do is argue alternative proposals from ideological view points with appeal to selected statistics to support those positions. Whilst this provides interesting and fervent debate, it is unlikely to lead to a rational improvement of our income security system.

A More Complete Framework of Analysis and Understanding

The impact and effectiveness of our present schemes of income security and evaluation of proposals for their improvement should be considered against a framework which will give a comprehensive perspective on the sources and uses of family funds: family incomes, called 'household income' in the National Accounts, are derived from three sources - employment, property rights and community transfers. In recent years employment has provided around 67 per cent, property rights 22 per cent and community transfers 11 per cent of household income (Australian Bureau of Statistics, December quarter 1979 (e)). Personal incomes, in the sense of the income available to individual persons includes a further element - incomes transferred within the family. We could call these 'family transfers' to indicate that the incomes are transferred to individuals within the family, either in cash or in kind. These transfers are gifts from one family member to another. Statistics are not available to give us a measure of the order of magnitude of these transfers.

Income security for individuals thus depends on four sources of income - employment, property, community transfers (benefits) and family transfers (benefits).

II.2 SECURITY OF INCOME FROM EMPLOYMENT

The landmarks along the road to security of income from employment in Australia include the Harvester judgement of 1907, the full-employment commitment of 1945 and its achievement in the 1950s, and the provision of almost universal unemployment benefits at an almost adequate level in the 1970s. The last of these is really part of the safety net of income transfers arising from community rights. On the other side of the coin, income security from employment is continually threatened by inflation. A level of income is genuinely secure only if it is adequate in real terms. Again, the level and manner of deduction of taxation from wage income affect its security. The combination of a progressive income tax with a high level of inflation can rapidly erode the real value of wage income. A genuine commitment to the automatic indexation of personal income tax scales, as recommended in the Mathews Report (1975), would do much to eliminate this particular element of income insecurity.

II.3 SECURITY OF INCOME TRANSFERS FROM PROPERTY

There is a number of diverse sources of this form of household income. Essentially it comes from four elements -

- income of unincorporated enterprises
- income from ownership of dwellings
- interest from financial assets
- dividends from equities

Unincorporated enterprise income for those engaged in family businesses can be rather insecure since it often involves a high risk factor. Farm income is notoriously dependent on the vagaries of the seasons and on fluctuating prices

for internationally traded commodities. Much has been achieved by way of marketing boards and through subsidies and tax concessions to provide income security for farm unincorporated income. Perhaps the most important landmark of recent years has been the effective operation of the Australian Wool Corporation. For some other unincorporated business activities such as in health (doctors, chemists) the extension of government financed insurance and benefits has guaranteed business incomes for these activities which some would say are excessively secure.

Ownership of dwellings has provided the most secure of all incomes. This includes the imputed value of owner-occupied dwellings. Although municipal rates have risen, sometimes sharply, the exclusion of this income source from the income tax base has given this stream of income a privileged characteristic.

The privilege afforded to make income from home ownership more secure is not necessarily a bad thing. This security is the foundation of the provision of many goods and services which are not included in our estimates of national income and expenditure. The labour cost of painting rented homes by paid labour increases gross domestic product; the labour cost of painting owner-occupied homes by unpaid family labour does not increase gross domestic product measured by the Australian Statistician. This omission distorts our statistical view of what is going on. This income and expenditure is also untaxed and I wonder whether we would be wise to attempt to tax it.

Interest receipts by households from financial assets provide 30 per cent of all income from property but only 6 per cent of all 'household' income. For some families and some individuals these items are important for income security. Interest received from financial assets has to be offset against interest paid on financial liabilities. The main factor leading to insecurity is the way in which interest and loan repayments are specified for long-term loans, particularly loans of individual funds to the community in the form of long-term bonds. The introduction of indexed bonds where the community agrees to repay the individual lender a return equal to the rate of inflation plus a small real return of, say, 1 per cent would do much to restore security to interest payments. Taxation of interest should only be levied on the real interest.

Security for investment income obtained from the ownership of equities is perhaps never likely to be achieved, considering that the purpose of an equity holding is to share risks of business enterprises. Again there are various ways the individual can minimize his risks - probably at the expense of lowering his average return. More effective securities and exchange regulation is probably the major requirement for the degree of income security that an individual investor should expect.

The introduction of current cost accounting (CCA) in the business sector would also do much to provide markets with more relevant information about the performance of public companies. It would not greatly change share prices since the main institutional investors, such as the life assurance companies, already assess the profitability of companies on a CCA basis. The adoption of CCA not only for company reporting, but also for taxation of company income, would probably result in a more efficient business sector and hence a greater return on equity capital to households.

II.4 SECURITY OF INCOME TRANSFERS RESULTING FROM COMMUNITY BENEFITS

These benefits are not given directly in return for services rendered but are conferred by legislation. Mention already has been made to unemployment benefits which in Australia are conferred as a right on individuals aged 16 and over who are unable to find work and who register for work with the Commonwealth Employment Service. In many other countries, unemployment benefits are largely

employment and even earnings related and hence are regarded by the unemployed as a return for the unemployment insurance deductions from their wages.

Pensions paid to the aged, to war veterans, and to invalids are a large part of transfers made by the community to households. Half of all general government transfers of cash benefits to persons in recent years were covered by these items (Australian Bureau of Statistics, 1980 (f)). Most of the pension payments are to the elderly - men over 65 and women over 60 as of right. When health benefits are also considered the bulk of the current $10 billion a year transfer of cash benefits is to aged persons.

Most of our social security system is directed to providing income to old people. Perhaps that is where the income security problems lie; but perhaps they lie elsewhere - with children and young people; with the unemployed and their wives and young families.

The community has been called in to make provision for income for the aged. For many, without families, without savings, without the ability to work, community support is the only way they could survive. However, it seems to me that a change of direction in our income security thinking is needed. We need to look to the income security of those under 60, and particularly I think those under 16. The latter depend, not on the community for a wage or an age pension, but on their families, their parents. Their personal income security depends on within-family transfers; on their rights and rewards as a family member and on the ability and willingness of a family to provide for them.

II.5 SECURITY OF INCOME TRANSFERS FROM FAMILY MEMBERSHIP

In what manner does our society expect to provide a child with a secure income? We have made extensive community provision for the aged. For children and young people we have relied on family support. It is perhaps instructive to set out a table (Table II.1) showing how we expect income will be secured for a child, a youth, an adult and an elderly person. The income needs of the handicapped and sick are of course another matter. What this table tries to do is set out what is expected for a typical, healthy, unhandicapped individual.

In summary, children and youths are dependent on family support and the elderly on community support. For adults, income security depends on full employment. A failure of full employment also has consequences for children but more particularly for youths who become vulnerable at the critical stage in their transition from dependency to independence. The high unemployment of the last eight years had undoubtedly seriously affected the lives of more than 50 per cent of those born in the decade 1955-1964 (at present aged 15 to 24). It has reduced the ability of this cohort of young people to move to full independence and in so doing has perhaps permanently affected their ability to take their turn in providing income security for their own offspring and for their own old age.

To complete the framework for analysis of income security we need to obtain estimates of the order of magnitude of the transfers of income from parents to children within the family. None is currently available from our official statistical agency, the Australian Bureau of Statistics (ABS). The next section is devoted to making estimates of the sources of income for individuals, including transfers within the family.

Table II.1

A TABLE OF SECURITY OF INCOME FOR INDIVIDUALS

A CHILD	• Society expects the parents of a child to provide income in the form of free consumption goods and services, with a little help from the community. • Security depends on being born into a family which continues to have an adequate income and on the willingness of parents to provide income to the child.
A YOUTH	• Society expects parents to provide income if tne youth continues with education beyond the compulsory school age, with some community help greater than for a child in some circumstances. • Income security depends on having a job or on the continued ability and willingness of parents to provide.
AN ADULT	• Society expects an adult to be available for work and expects a husband to provide income for his wife. • Income security depends on having a job or on having a spouse with both ability and willingness to provide.
AN ELDERLY PERSON	• Society guarantees a minimum income for an elderly citizen. • Income security above a minimum level depends on savings which in turn depends on having had an adequate employment income during working life.

II.6 INCOME SECURITY IS FOR CONSUMPTION BY INDIVIDUALS

The purpose of income security is to provide consumption security. Income need not all be spent on current consumption and can be saved for future consumption. Thus fluctuations in an individual's income flows are not incompatible with him having a steady and secure consumption flow provided his mean income is sufficiently high and that credit is available to him when the income fluctuation is below the mean level. The purpose of consumption security is to provide the individual with a secure environment for his mental and physical activities. This may be re-stated as the satisfaction of individual wants and needs. The main point is that all these things that we measure and discuss, the incomes, the consumption expenditures, and the acts of consumption themselves are all means to ends, the happiness and satisfaction of individual people.

There are many difficulties in the way of measuring individual happiness or satisfaction. The measurement of consumption expenditure is perhaps the nearest we can approach to such measures. And yet even here we nave not tried to achieve a great deal. Although Australia has regular estimates of total private consumption expenditure, both annually and quarterly, we have nad very few surveys that provide estimates of consumption expenditures for different types of families or households, and none that provide comprehensive estimates of expenditures for different groups of individuals, such as children, youths, adults and so on. At present we do not know the consumption expenditures by or for say, 5 year olds or 10 year olds, or men, or women, or adults, or children.

For the various age and sex groups in the community we know a little about labour force participation, education participation, mortality, migration, and weekly earnings. We know practically nothing about the end result of all these activities, the consumption expenditures for the age and sex groups in the community. It is however possible to make some initial estimates of these expenditures for two groups - adults and children. These expenditure estimates will then form the basis of estimates of family transfers.

II.7 DISTRIBUTION OF INDIVIDUAL CONSUMPTION EXPENDITURES

Funds available to the family are saved or used to provide goods and services for consumption by individual family members. The 1975-76 Household Expenditure Survey provides data for the average income and expenditure for each of eight different types of households together with estimates of the total number of households and the average number of persons per household of each type. From a sample of 5,869 households the ABS estimated there were 4,159,500 households containing 12,853,000 persons in Australia in 1975-76. The survey excluded people in hotels, boarding houses and institutions and also those visitors staying less than six weeks and usual residents absent or going away during the survey.

It is evident from these data, as has been observed in many similar studies before, that there are economies of scale involved in living together. Two cannot live as cheaply as one but two together can live cheaper than two apart. It is also evident from these data, again observed many times before, that expenditure on children is less than on adults. Thus marginal expenditures decline as additional members are included in the household, and these marginal expenditures are considerably less for children than for adults. The 1975-76 Household Expenditure Survey provides data which allow us to make estimates of these marginal expenditures.

Table II.2 shows the total household expenditure per week for various combinations of adults and children.

Table II.2

TOTAL HOUSEHOLD EXPENDITURE PER WEEK, 1975-76

Number of Adults:-	1	2	3	4+
Number of Children: 0	$ 86.2	$150.8	$232.9 (a)	
1	$122.4(b)	$174.6	$281.9(d)	
2		$198.2		
3		$199.5(c)		
4+				

Adults are those aged 18 years or more; Children are those aged less than 18 years.

(a) For 3.28 adults
(b) For 1 adult and 1.89 children
(c) For 2 adults and 3.60 children
(d) For 5.37 adults and children

Source: Australian Bureau of Statistics, *Year Book Australia 1977-78*, Canberra, 1979, p. 145.

By interpolation of missing values for the exact integral combinations of adults and children covered by the four groups (see footnotes (a), (b), (c), (d)) in Table II.2 we can obtain a more complete picture of the total expenditures. This is shown in Table II.3

Table II.3

TOTAL HOUSEHOLD EXPENDITURE PER WEEK, 1975-76
(after interpolation)

Number of Adults:-	1	2	3	4
Number of Children: 0	$ 86.2	$150.8	$214.9	$279.0
1	$105.4	$174.6	$226.4	-
2	$124.5	$198.2	$247.8	-

It follows that the marginal expenditures are as shown in Table II.4.

Table II.4

MARGINAL HOUSEHOLD EXPENDITURES PER WEEK, 1975-76

Number of Adults:-	1	2	3	4
Number of Children: 0	$ 86.2	$ 64.6	$ 64.1	$ 64.1
1	$ 19.2	$ 23.8	$ 21.5	
2	$ 19.1	$ 23.6	$ 21.3	

It seems that each additional adult in a household is associated with an additional expenditure of about $64 and each additional child, $22. That is about 75 per cent and 25 per cent respectively of the initial household expenditure for the first adult. This also means that the economies of scale are practically all exhausted in the move from a one person (adult) household to a multi-person household. Closer examination of the data for expenditure on the various consumption categories shows that the economies of scale lie almost entirely in two items:- (i) current housing costs, and (ii) fuel and power. There also appear to be substantially higher expenditures per head on 'clothing and footwear' and 'recreation and education' in single person households than in multi-person households.

We should also note that the average age of children in the survey is approximately 9.0 years whilst the average age of adults (aged 18 and over is about 40.0 years. From the survey we can deduce that in Australia in 1975-76 (i) there were about 2.1 million adult-only households containing about 4.0 million adults with about $15.6 billion household expenditure ($75 per week per adult); (ii) there were about 2.1 million households containing both adults and children (4.4 million adults and 4.4 million children) spending about $21.8

billion - $16.8 billion on adults ($74 a week each) and $5.0 billion on children ($22 a week each).

These estimates of the distribution of consumption expenditures between adults and children implied by the 1975-76 household expenditure survey indicate an overall expenditure per person (both adults and children) of $56 per week. This is not far short of the average private consumption expenditure per person of $60 per week in 1975-76 shown by the latest quarterly estimates of national income and expenditure (ABS (1980) (e)).

II.8 ESTIMATES OF SOURCES OF INDIVIDUAL INCOME SECURITY

Judicious use of data from the Australian Bureau of Statistics enables some preliminary estimates to be made for the year 1975-76 of the sources of income security for individuals in various age groups. The details of the sources and assumptions used to make these estimates are shown in the Appendix. The estimates as summarized in Table II.5 and Figures II.1 to II.5 show how community and family transfers modify the age distribution of personal income derived from work and property. The estimates should be regarded as preliminary estimates of the orders of magnitude of the flows.

At the foot of the Table II.5 a summary gives the percentage distribution of the source of individual disposable income. Two alternative sets are given depending on whether taxes are regarded as being offset against cash benefits from government or regarded as being deductions from wage and property income.

For the 8 million not-employed persons in Australia over half their disposable income derives from family transfers; net community transfers provided only one quarter of income and property income the other quarter. For the 6 million employed persons, employment provided 85 per cent of their gross income. However their final disposable income, after transfers of 18 per cent via compulsory taxation and of 25 per cent via voluntary family transfers, left them with 57 per cent of their original gross income. Even so, employed adults retained for themselves an average income 12.5 per cent higher than other adult family members.

Family transfers are twice as important as community transfers. Estimates for 1975-76 show cash benefits to persons from governments (community transfers) provided about 12.8 per cent of personal disposable income whilst cash and kind benefits from other individuals (family transfers) provided about 24.0 per cent of personal disposable income.

Most people depend on transfers for most of their income. It is not true to say that 'most people earn an income from work' if we mean that to be a statement about the situation at a point in time. At any point in time just over 40 per cent of individuals are earning income from work. Almost 60 per cent of the population are not earning an income from work. Considering that many of the 700,000 working part-time are also the recipients of community or family transfers to maintain an adequate level of income, it may well be true that over 60 per cent of people depend on transfers to maintain their income.

At any point in time, the typical situation for the majority of individuals is one of receiving income as a transfer not as a paid reward for employment. Of course within the family, where the bulk of these transfers occur, there are many arrangements for rewards for work performed. A study of the arrangements for such transfers in the context of the normal operations of various types of families could be useful in understanding the interrelations between 'gift' and 'reward' as factors in the distribution of the $12 billion of family transfers. Such a study would also help to provide a set of standards from which breakdowns in family transfer arrangements could be reviewed. It is difficult to comprehend the importance of these flows which provide almost 25 per cent of

Table II.5

PERSONAL INCOME AND TRANSFERS, 1975-76: AUSTRALIA

Personal Age Group	Not-Employed Persons					Employed Persons			All Persons
	0-14	15-19	20-64	65+	Total	15-19	20-64	Total	
Persons '000	3,770	640	2,430	1,240	8,080	610	5,230	5,840	13,920
$ billion									
Wage Income (Gross)	-	-	-	-	-	2.4	38.3	40.7	40.7
Wage Tax	-	-	-	-	-	-0.4	-6.6	-7.0	-7.0
After Tax Wages	-	-	-	-	-	2.0	31.7	33.7	33.7
Govt. Cash Benefits	1.0	0.5	1.2	3.7	6.4	-	-	-	6.4
Non-Wage Income (Gross)	-	-	3.4	1.8	5.2	-	7.1	7.1	12.3
Other Income Tax	-	-	-0.7	-0.4	-1.1	-	-1.4	-1.4	-2.5
After Tax Other Income	-	-	2.7	1.4	4.1	-	5.7	5.7	9.8
Disposable Family Income	1.0	0.5	3.9	5.1	10.5	2.0	37.4	39.4	49.9
Average per person Year $	260	780	1,600	4,110	1,300	3,280	7,150	6,750	3,580
Average per person Week $	5.0	15.0	30.8	79.0	25.0	63.1	137.5	129.8	68.8
$ billion									
Net Family Income Transfer	4.0	1.5	6.5	-	12.0	-	-12.0	-12.0	0.0
Total Indiv. Income	5.0	2.0	10.4	5.1	22.5	2.0	25.4	27.4	49.9
Av. per person Year $	1,330	3,120	4,280	4,110	2,780	3,280	4,860	4,690	3,580
Av. per person Week $	25.5	60.0	82.3	79.0	53.5	63.1	93.4	90.2	68.9
Source of Individual Disposable Income: Per Cent of Total Disposable									
Family Transfer	80	67	62	-	53	-	-48	-44	-
Community Transfer (Gross)	20	33	12	73	29	-	-	-	13
Property Income (Net)	-	-	26	27	18	-	23	21	20
Wage Income (Net)	-	-	-	-	-	100	125	123	67
Community Transfer (Net)	20	33	(5)	(65)	(24)	(-20)	(-31)	(-30)	(-6)
Property Income (Gross)	-	-	(33)	(35)	(23)	-	(28)	(26)	(25)
Wage Income (Gross)	-	-	-	-	-	(120)	(151)	(148)	(81)

Source: Personal Estimates based on Australian Bureau of Statistics Data.

personal disposable income. Perhaps the best comparison is with another set of transfers much discussed and analyzed, the grants to the Australian states from federal authorities. In 1975-76 interpersonal grants were $12 billion; intergovernmental grants $7 billion.

II.9 THE FUTURE OUTLOOK FOR INCOME SECURITY

What has all this to do with the future outlook for income security? Why are family transfers worth so much emphasis? The answer is that the system of community transfers is the safety net for the total system of delivery of income to individuals, including family transfers. We need community transfers to provide income when the other systems fail. Failures can occur not only in employment generated income and in property generated income but also in family transfer income.

If we examine the age distribution of average personal incomes before transfers and after transfers (Figure II.8) we see there are two critical points. The first occurs at about age 18 where average before-transfer income rises sharply and overtakes after-transfer income. The second occurs at about age 65 when before-transfer income drops sharply and falls below after-transfer income. These points mark the *employment transition* and the *retirement transition*. Of course Figure II.8 shows only the average income curves for the population at a point of time. Any individual is likely to experience over his lifetime a rather different pattern than this average. And, whilst the average curves are probably fairly typical for males, females have tended to experience two additional transitions - one at age 27 or so when they retire from paid employment to raise a family and another re-employment transition when they re-enter paid employment at around age 40.

The main focus of our income security safety net has been on the retirement transition. In 1975-76 more than half of the community transfers to individuals were post-retirement transition payments (see Figure II.2). Community transfers to those above the age of 65 make up for the inadequacy of income from employment, from property and from family transfers. Less than half of our community transfers have been concerned with the income security of the 91 per cent of the population under the age of 65. The adequacies and inadequacies of the systems for delivery of income to individuals in these ages would seem worthy of more consideration. In particular it seems to me that the income delivery systems for those aged 15 to 19 need further study. This is the age group where the first radical transition occurs between the before-transfers and the after-transfers income curves shown on Figure II.8. The average curves cross at around age 18. But for individuals this first transition to employment status from dependency may be much earlier at age 15 or much later at around age 22. Can we be sure that community transfers are making up sufficiently for any inadequacy of income from employment, from property and from family transfers for those aged 15 to 19?

The Commission of Inquiry into Poverty reported on the extent of poverty among juveniles in Australia in 1973. Since then there is increasing evidence of the problems of income security for young people. It seems to me that the incentives for income security currently facing young people between the ages of 15 and 19 are particularly maladjusted to what commonsense would suggest. Australian society has traditionally offered big incentives to young people to leave education and enter the labour force. A high demand for labour in the thirty years from 1940 to 1970 meant that the majority of Australian children could leave school at age 15 or 16, at the end of the period of compulsory education, and take up paid employment. Only a minority with aspirations for higher education and professional or academic qualifications continued on with secondary schooling beyond the age of 16. The result was that Australia had, and still has, one of the highest rates of *employment* of teenagers amongst

comparable OECD countries and one of the lowest rates of education of teenagers amongst these countries.

For the middle levels of skilled manpower Australia relied on a large flow of migrants during the 1950s and 1960s. During the 1980s Australia will need a bigger inflow of skilled workers associated with the new minerals expansion. In secondary and services industries the emphasis will also be on skills. However, the incentives for young people to continue in education are lacking. Only 25 per cent of Australian 18 year olds are still receiving an education. This compares with more than 50 per cent for the Japanese and for North Americans.

The continuation in education of an additional 25 per cent of 18 year olds would require a large increase in family transfers. Moreover, the benefits to the individual and to the community would be largely at the expense of the other members of a particular group of families. The present system forces many young people, particularly girls, to take up paid employment when they wish to continue with their own education, and when it would be clearly in the long-run interests of the individual and the nation for that education to continue. At present there is considerable dissatisfaction with the confused jumble of allowances and benefits for young people.

In a recent survey of the income maintenance policies of the Fraser Government I noted that:

> 'The present system of levels of income support benefits for young people is composed of an arbitrary set of limits, barriers and jumps with little rhyme or reason. Such a system must play havoc with any rational decision-making by young people and their families. The income penalty for staying on at school, college or university rather than taking a job or the dole is too great. Only those who have strong family support can really afford to make the choice to continue their education' (Ironmonger 1980).

In that survey I suggested that the growing deficiencies in income support for teenage students and for families would be largely remedied by a modest reform that would in effect provide a guaranteed minimum income for young people. This was called a 'graduated allowance for youth'. A youth allowance of modest proportions and available to all young people from the age of 15 to 19 would eventually induce a significant increase in the education participation rates of those aged 15 to 19 and a significant reduction in the labour force participation rates of these young people. Instead of the present participation rates, after a few years participation rates could well move as follows:-

Table II.6

YOUTH PARTICIPATION RATES
per cent

Age	Present		Future	
	Education	Labour Force	Education	Labour Force
15	90	8	98	-
16	63	33	83	13
17	43	53	66	30
18	22	73	50	45
19	15	77	28	64

These rates are approximations and are based on classifying young people according to their major activity. Changes in participation rates of these proportions would mean that at any point in time there would be about 250,000 additional students in education and training. Most of these would be in technical and secondary education, only a very few would be additional tertiary students in universities and colleges of advanced education. These 250,000 would result in a greatly reduced labour force participation - the numbers aged 15 to 19 in the labour force would be reduced from about 650,000 at present to 400,000. In turn this would result in an increase in employment for adults aged 20 to 64. First by the direct replacement in jobs of about 150,000 teenagers at present in full-time employment; second with the employment of about 15,000 additional secondary and tertiary teachers; and third by the indirect effects of the additional employment needed to supply goods and services resulting from the change.

Obviously this is not the place to go into all the details of the consequences of the introduction of a scheme of youth allowances. This point is not to ask what is the 'cost' of such a scheme, because in a sense there is no cost - the consumption expenditures of young people are being provided at the moment through wage income, community transfers and family transfers. The point is to ask what would be the full-system consequences of changing incentives by making community transfers available to all young people who continue with education beyond the age of 14 years?

Obviously the flows of family finances would change. Returning to Table II.5, perhaps $1.0 billion of the family transfers to those aged 15 to 19 would be replaced by community transfers. But also obviously there would be changes in participation rates in education and in employment. Many tens of thousands of the employed 15 to 19 year olds would move to the not-employed category, and many tens of thousands of the not-employed aged 15 to 19 *and aged 20 to 64* would move to the employed categories shown in the top line of Table II.5. This would result in changes in the distribution and total of wage income (shown in the second line of Table II.5).

The result would be an increase in the income base from which both community transfers and family transfers are financed. To work out the final result will require a detailed study not only of the labour market supply response but also of the savings and *family transfer* responses.

II.10 CONCLUSION

This paper has put forward the start of a methodology for the analysis and design of income security systems for the future. We need a more comprehensive understanding of the flows of family finances than we have attempted before. This framework should include a detailed current knowledge of the magnitudes of the interpersonal transfers between family members. On the one hand, the breakdown of these transfers under pressure from the lack of an effective full employment policy means that there is a greater need for community transfers. On the other, a poorly designed and counterproductive set of community transfers for young people puts inequitable pressure on the system of family transfers. Income security in the future will be designed so that we have a positive interaction between the two systems of income transfers with community transfers and family transfers reinforcing each other.

Figure II.1

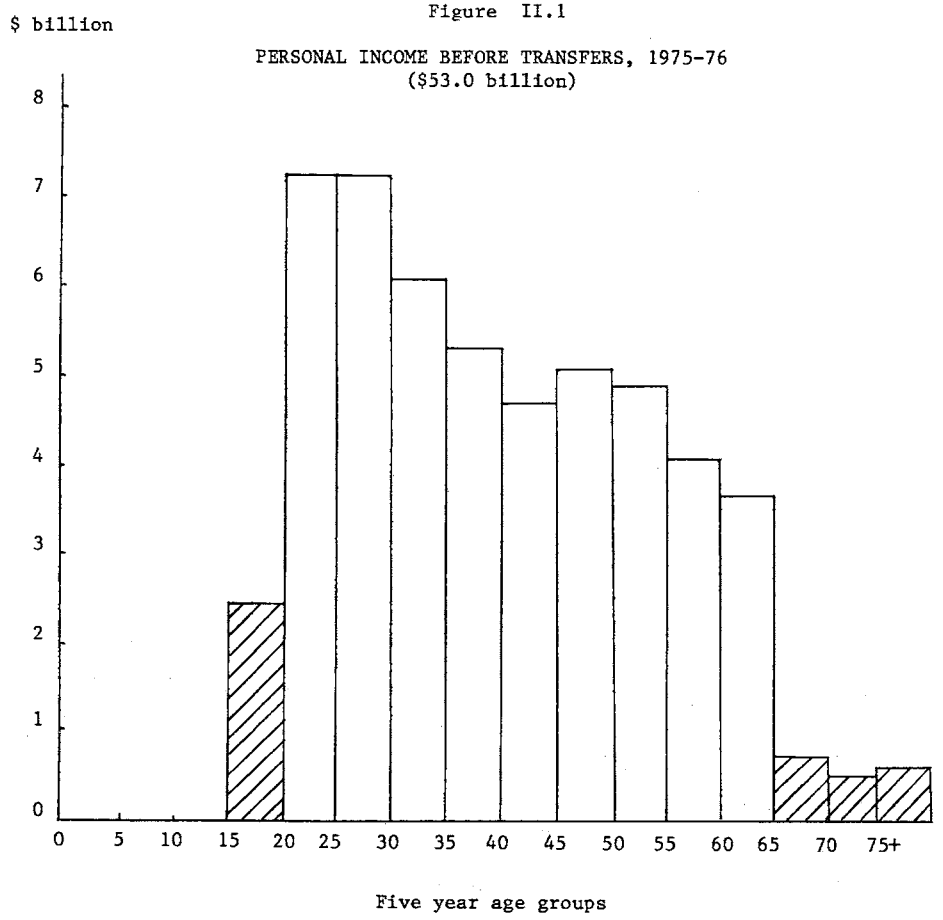


Figure II.2

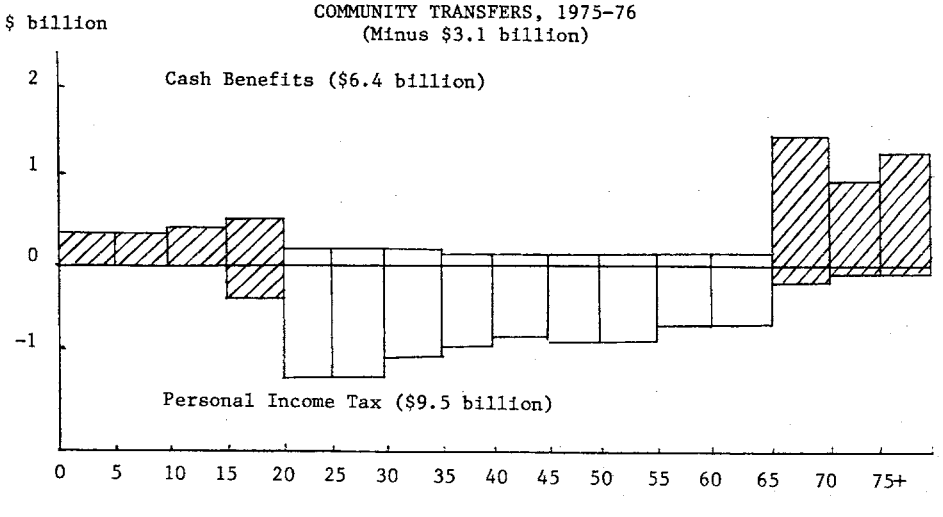


Figure II.3

PERSONAL INCOME AFTER COMMUNITY TRANSFERS, 1975-76
($49.9 billion)

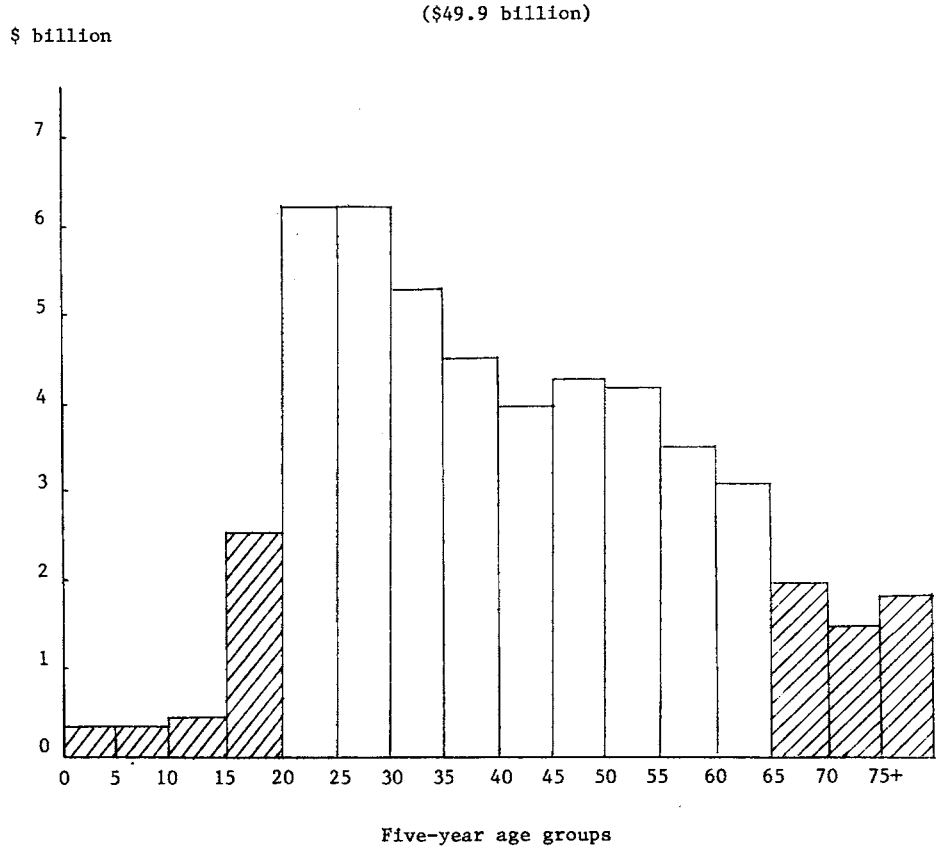


Figure II.4

FAMILY TRANSFERS, 1975-76
($12.0 billion)

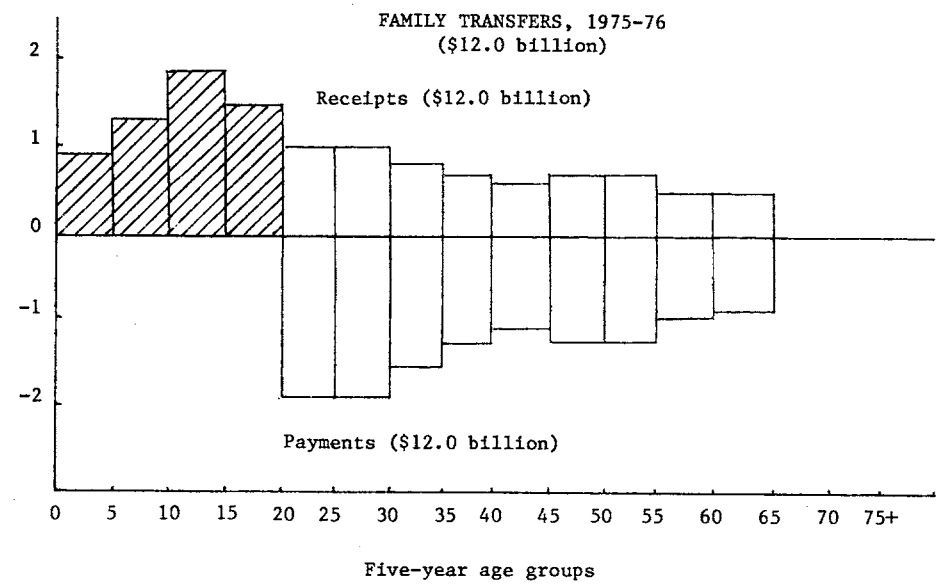


Figure II.5

PERSONAL INCOME AFTER TRANSFERS, 1975-76
($49.9 billion)

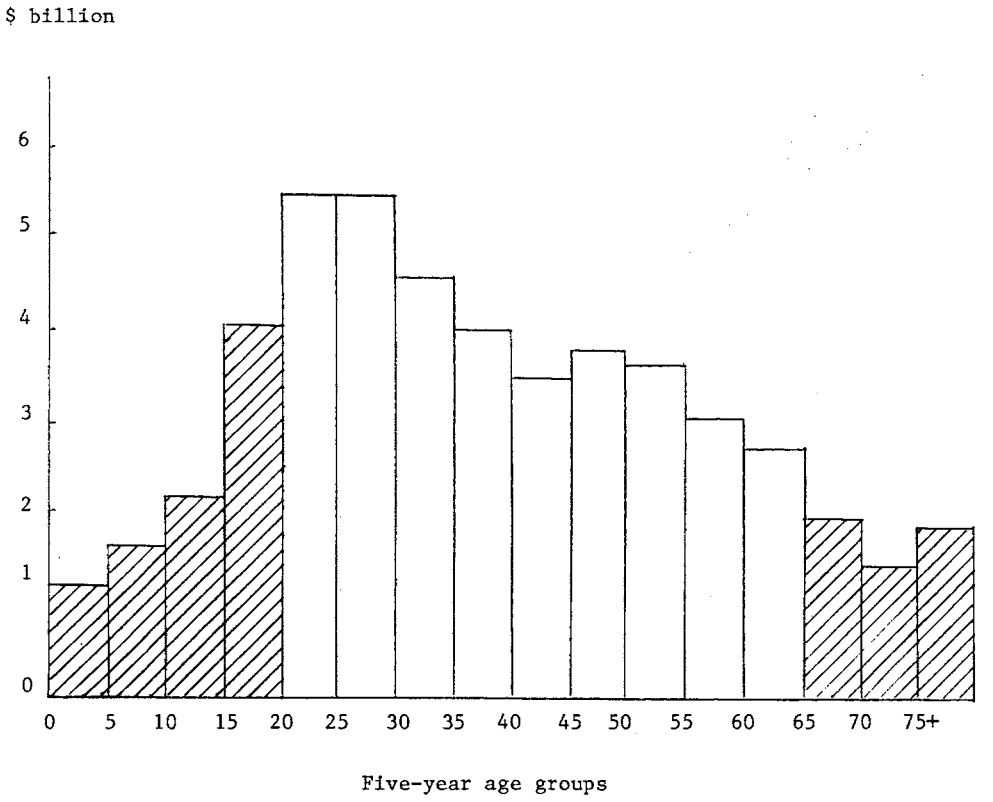


Figure II.6

NUMBER OF PERSONS, 1975-76
(13.9 million)

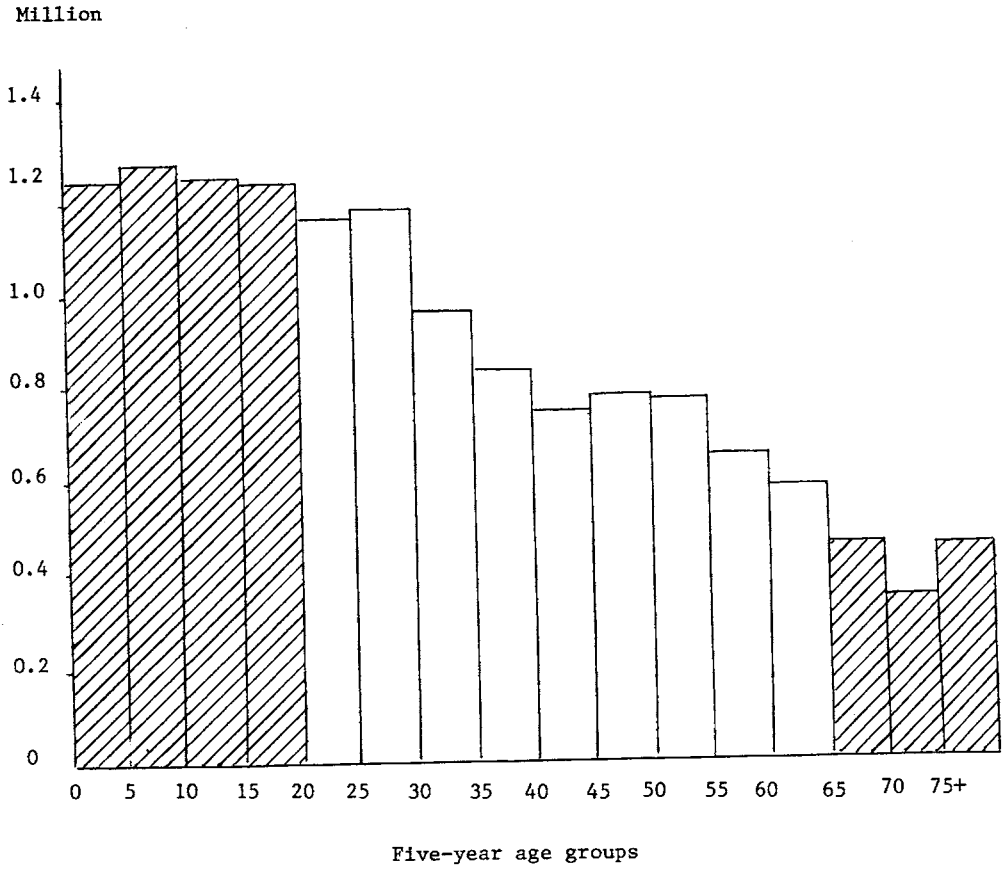


FIGURE II.7

AVERAGE PERSONAL INCOMES AFTER TRANSFERS, 1975-76
($3,580/year = $68.85/week)

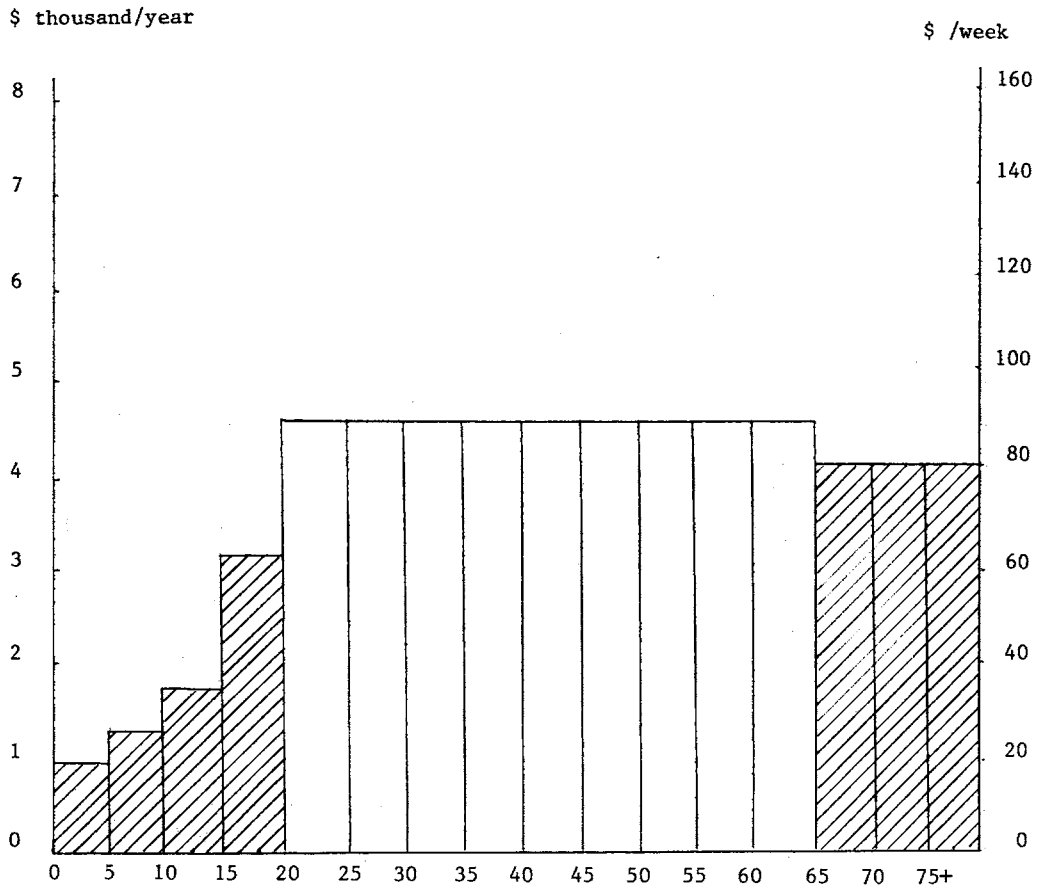
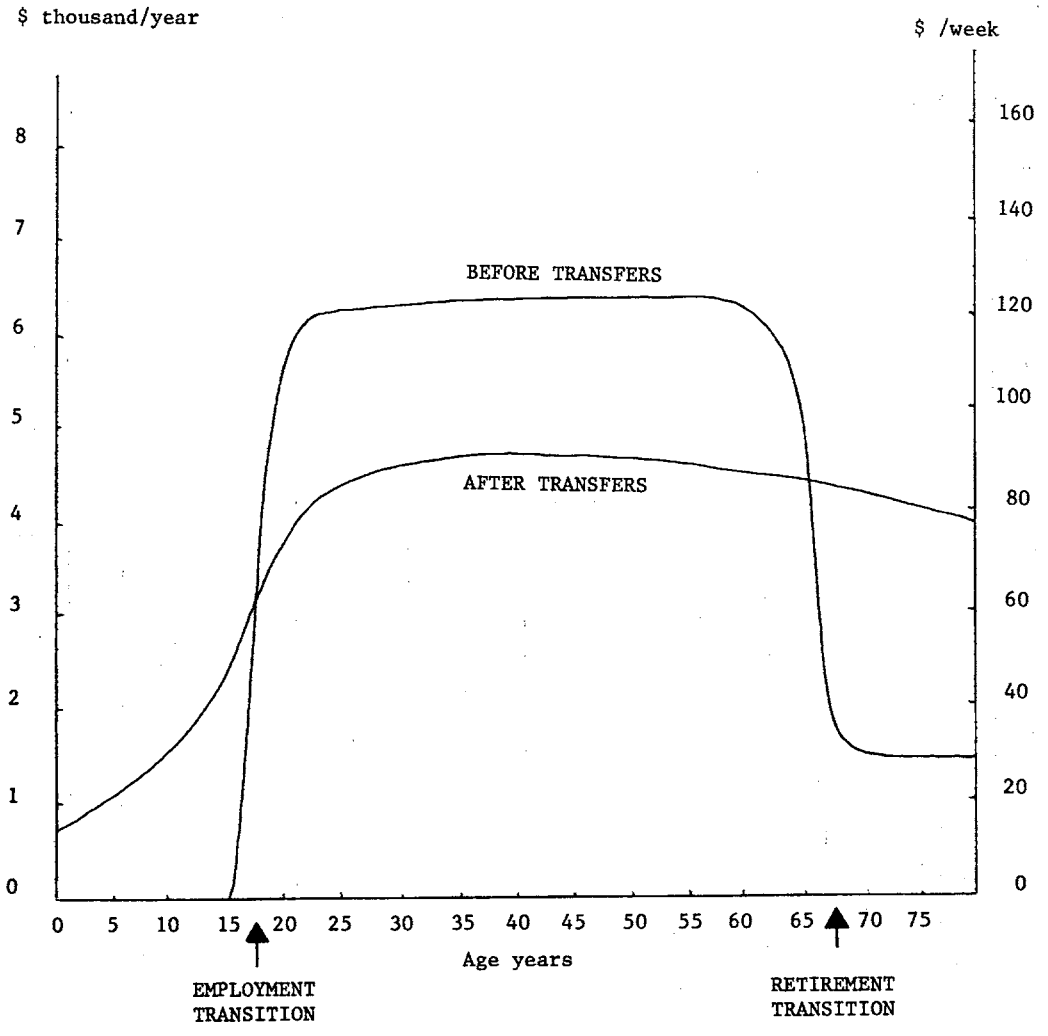


FIGURE II.8

AVERAGE PERSONAL INCOMES, 1975-76



APPENDIX

PERSONAL INCOME AND TRANSFERS, 1975-76: AUSTRALIA
(Preliminary Estimates December, 1980)

Methods of Estimation

Number of Persons

Population to the nearest 10,000 at 30 June 1976 by age group (ABS, Official Year Book No. 62, p. 102); employed persons, (Labour Force Survey May 1976 (*ibid*, p. 150)); assumed that all persons aged 0 to 14 and 65+ are 'not employed'.

Wage Income (Gross)

Gross wage income is 'Wages, salaries and supplements' from National Income and Expenditure Accounts (Official Year Book, No. 62, p. 634). The total of $40.7 billion has been revised upwards in more recent estimates to $41.5 billion (e.g. Quarterly Estimates of National Income and Expenditure, December quarter 1979, April 1980, p. 8).

Assumed average gross wage income $140 per week for those aged 20 to 64 and $76 per week for those aged 15 to 19 (i.e. average youth earnings are 54 per cent of average adult earnings).

Wage Tax

Net income tax instalments by individuals (Quarterly Estimates of National Income and Expenditure, December quarter 1979, p. 23). Assumed tax is same proportion (17.2 per cent) for youths as for adults.

Government Cash Benefits

General government cash benefits to persons (Quarterly Estimates of National Income and Expenditure, December quarter 1979, p. 23) includes unfunded employee retirement benefits. Assumed that children aged 0 to 14 received $5 per week, not-employed youths aged 15 to 19 $15 per week and not-employed adults aged 20 to 64 $9.50 per week with the balance being received by those aged 65+.

Non-Wage Income (Gross)

Gross non-wage income is the income of unincorporated enterprises and from the ownership of dwellings and financial assets from the National Income and Expenditure Accounts.

The total of $12.3 billion has been revised upwards in more recent estimates to $13.1 billion (e.g. Quarterly Estimates of National Income and Expenditure, December quarter 1979, p. 17). Consumer debt interest ($0.6 billion) could be deducted from the latter to give a current estimate of $12.5 billion in 1975-76.

Assumed that this income is spread evenly across the three groups making up the 8.9 million people aged 20 and over in proportion to the number in each group.

Other Personal Income Tax

Comprises 'other' income tax on individuals ($2.2 billion) plus duties on estates and gifts ($0.3 billion), (see Quarterly Estimates of National Income and Expenditure, December quarter 1979, p. 23).

Assumed to be proportionate to gross non-wage income (20.3 per cent).

Disposable Family Income

The sum of 'after tax wages', 'after tax other income' and 'government cash benefits'. The main difference between the figure of $49.9 billion in these preliminary estimates and the figure of $50.9 billion currently shown in recent Quarterly Estimates of National Income and Expenditure is the upward revision to wages, salaries and supplements.

Net Family Income Transfer

Transfers made from the incomes of the 5.23 million employed persons aged 20 to 64 to non-employed persons aged 0 to 64 to enable them to consume at the levels indicated by the 1975-76 household expenditure survey.

In 1975-76 household savings were $7.5 billion. These were in the form of net acquisition of financial assets or in an increase in net ownership of dwellings and of unincorporated enterprises. These savings amounted to $10.4 per week per person.

The distribution of the ownership of these net acquisitions of assets across the age groups is highly conjectural. However, for the purpose of the estimates of family transfers, some allowance has been made for transfers of savings. Hence, for example, the average individual income of a child aged 0 to 14 comes to $25.50 per week, $3.50 per week greater than the figure for average consumption expenditure of $22 per week from the household expenditure survey.

Even so, the bulk of new savings, perhaps over $6.0 billion in 1975-76, remained in the hands of those aged 20 to 64. The average retained income of these adults of about $90 per week covered an average consumption expenditure of $75 per week and average savings of $15 per week.

Putting all these ideas together required a transfer of $44 per week from employed adults aged 20 to 64 to non-employed persons.

Distribution of Income By Five Year Age Groups.

For the purpose of constructing the distribution of income data by 5 year age groups I have assumed that the 1.2 million people aged 65 and over obtained substantial income from property but no income from employment and no family transfers. Obviously some over 65 were employed and some family transfers were made to and fro across the 65 age boundary. Corrections for these flows would be unlikely to change the broad conclusion that those over the age of 65 depend on community transfers for around two thirds of their personal disposable income.

I have also assumed that the 1.2 million young people aged 15 to 19 received no income from property, that some 0.61 million were employed full-time or part-time at an average before transfer wage of $76 per week, and that the other 0.64 million received an average community transfer of $15 per week in addition to family transfers of income in cash or kind equal to $45 per week. Corrections to these assumptions based on fuller investigation would be unlikely to change the broad conclusion that young people aged 15 to 19 not in employment depend on family transfers for around two thirds of their personal disposable income.

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III RELATIONSHIP BETWEEN AUSTRALIAN SOCIAL SECURITY AND PERSONAL INCOME TAXATION SYSTEMS

A.S. Podger, J.E. Raymond and W.S.B. Jackson

III.1 INTRODUCTION

Two key areas of government activity have income redistribution as a specific objective - the social security and personal income tax systems. Other parts of the taxation system, and assistance other than social security, also have important impacts on the distribution of income but do not generally have redistribution as an explicit or prime objective.

While it is possible to assess the separate redistributive effects of social security and personal income tax, it is generally the interaction of the two systems which matters in the determination of the distribution of disposable incomes. An understanding of the way in which the two systems interact is therefore required to assess options for change.

Income redistribution is concerned with the concept of equity which has two major elements:

- vertical equity - a concern that people who are more well-to-do should shoulder greater tax burdens than those less fortunately placed (or, conversely, that those less fortunately placed should receive greater assistance than the well-to-do). In practice this principle is taken to support varying taxes and social security entitlements according to income and/or capacity to earn income;

- horizontal equity - a concern that people in like circumstances should be treated alike. In practice this principle is taken to support different treatment of people with the same income but differing calls on that income, particularly differing family responsibilities.

Measures designed to promote vertical and horizontal equity can work simultaneously; redistribution from rich to poor can be accompanied by redistribution from those with few financial responsibilities to those with many. But these two concerns do not always work in harmony. The case for providing additional assistance for the dependants of a person with no private income is generally accepted; the case for dependants of a person on a high income is not so clear. At the extreme, the two components may even conflict: the provision of (additional) assistance, or reduced tax, to those on high incomes with dependants may reduce the capacity of the system to assist those on low incomes with or without dependants.

In many overseas countries, there is a further major element of income redistribution policy: the maintenance of income through insurance-type arrangements for contingencies such as age, invalidity and unemployment. In Australia, this component is left largely to private arrangements, with the government providing minimum income support. There are, however, varying degrees of government involvement through schemes for its own employees, regulation (e.g. workers' compensation) or encouragement (e.g. tax concessions for occupational superannuation).

This chapter provides a basis for discussion of more general issues and policy options relating to the interaction of the social security and tax systems. It does not attempt to draw conclusions; it merely examines the effects of the interaction of the two systems on disposable incomes and effective marginal tax rates. In doing so, attention is confined to nominal

redistributive effects although it is recognized that the real incidence of income tax and social security may be rather different. The interaction of the social security and personal income tax systems is examined in two parts; the first part covers some issues relating to vertical equity and the second some issues relating to horizontal equity. The third section briefly discusses the relationship between vertical and horizontal equity. The final section of the chapter compares current arrangements with a proposal for full integration of the social security and personal income tax systems.

III.2 ISSUES RELATING TO VERTICAL EQUITY

Social security pensions and benefits may be regarded as income support measures for people who, because of age, invalidity, sickness, unemployment, sole parenthood, etc., are less able or not expected to earn their own incomes.

There are three basic elements to any income support scheme such as Australia's which is not grounded on insurance principles nor earnings related:

- the maximum level of entitlement;
- the rate at which entitlement is withdrawn or offset by income tax as private income increases; and
- the cut-out point at which entitlement ceases (or where assistance provided is equal to income tax payable).

Any two of these elements determine the third. Because of the inter-relationship between these elements, there is an inherent conflict arising from the competing aims of:

- providing an adequate level of support for those with no private income;
- ensuring reasonable incentives for self-help; and
- ensuring that the cost of the scheme is maintained within realistic limits.

The higher the basic level of support, the greater will be the alleviation of poverty. But so too could be the detrimental effects of incentives for self-help: the higher payment could reduce the incentive for people to provide for themselves. In addition, for a given cost, the rate of withdrawal of assistance must increase and the resulting higher effective marginal tax rates could also adversely affect incentives for self-help.

The trade-off between the three elements of income support schemes cannot be considered in isolation. Other factors, such as the eligibility criteria for the scheme must also be taken into account. For instance, the level of support and the withdrawal rate which apply to pensioners may not be appropriate for beneficiaries.

A detailed description of Australian social security pensions and benefits, and their income tests etc., can be found in the annual reports of the Department of Social Security.

Maximum Levels of Assistance

Broadly, maximum levels of assistance are uniform across all social security pensions and benefits - the major exceptions are that pensioners, including supporting parent beneficiaries, may be entitled to certain allowances not

available to beneficiaries, and benefits for single people under 18 and unemployed people without dependants are lower than other pensions and benefits.

Table III.1

MAXIMUM LEVELS OF PENSION AND BENEFIT PAYMENTS, DECEMBER 1979

	$ per week
Age, invalid and widows' pensions, supporting parents' benefit and sheltered employment allowance	
Standard rate*	57.90
Married rate (combined)*	96.50
Unemployment Benefits	
Single person	
. under 18	36.00
. over 18 with no dependants**	51.45
. over 18 with dependants*	57.90
Married person (including additional benefit for spouse)*	96.50
Sickness Benefits	
Single person	
. under 18	36.00
. over 18*	57.90
Married person (including additional benefit for spouse)*	96.50
Supplementary Payments	
Additional pension/benefit for children (per child)**	7.50
Mothers'/guardians' allowance (for single parent pensioners, including supporting parent beneficiaries)	
- at least one child under 6 or invalid**	6.00
- no child under 6 or invalid**	4.00
Supplementary assistance/allowance (subject to a special income test, available to pensioners including supporting parent beneficiaries and to long-term sickness beneficiaries who pay rent)***	5.00

* The rates payable in these cases are subject to indexation. From May 1982 the single rate is $74.15 p.w. and the married rate $123.60.

** From November 1981 unemployment benefit for those over 18 without dependants is $58.10; additional pension/benefit is $10 and mothers'/guardians' allowance is $8 or $6.

*** From February 1982, the maximum rate of supplementary assistance is $8 per week. The income test and rent test applying also changed.

In the last twenty-five years the levels of maximum assistance to pensioners and beneficiaries have increased substantially in both money and real terms. However, relative to average earnings, the levels have moved less consistently. Movements in maximum levels of assistance for various pensioners and beneficiaries in money and real terms, and relative to average weekly earnings (AWE), are shown in Attachment A. The movements in maximum rates of assistance for pensioners and unemployment beneficiaries relative to AWE are illustrated in Figures III.1 and III.2.

Income Tests

The income test for pensions, including supporting parents' benefits, differs from that for unemployment and sickness benefits in December 1979:

Figure III.1

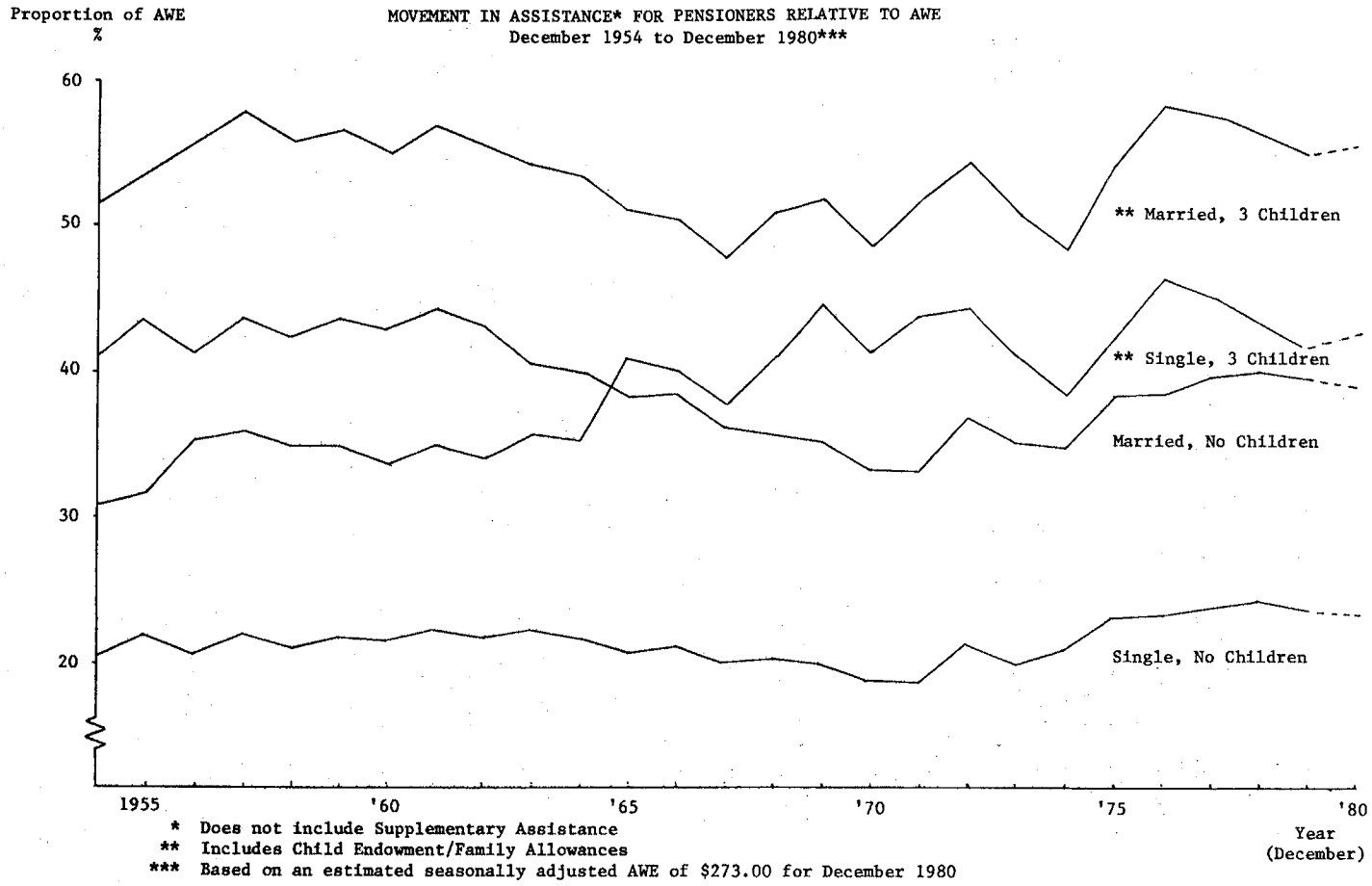
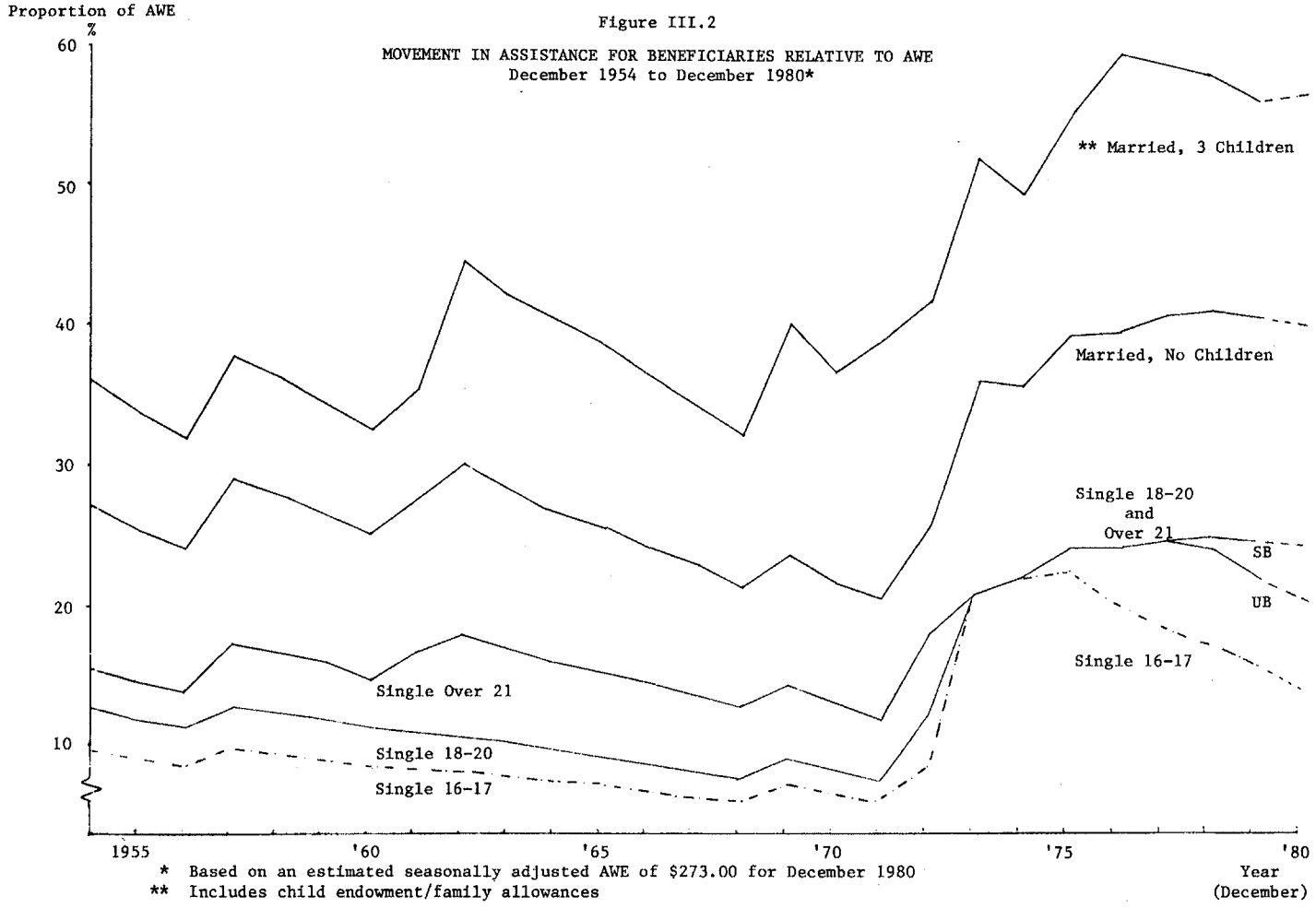

Proportion of AWE
%
MOVEMENT IN ASSISTANCE* FOR PENSIONERS RELATIVE TO AWE
December 1954 to December 1980***
60
50
40
30
20
** Married, 3 Children
** Single, 3 Children
Married, No Children
Single, No Children
1955
'60
'65
'70
'75
'80
Year
(December)
* Does not include Supplementary Assistance
** Includes Child Endowment/Family Allowances
*** Based on an estimated seasonally adjusted AWE of $273.00 for December 1980

Figure III.2

MOVEMENT IN ASSISTANCE FOR BENEFICIARIES RELATIVE TO AWE
December 1954 to December 1980*



* Based on an estimated seasonally adjusted AWE of $273.00 for December 1980

** Includes child endowment/family allowances

- under the pension income test, assistance is not withdrawn until private income exceeds the 'free area' of $20 a week (single) or $34.50 a week (married couple) with an additional concession of $6 for each dependent child; the rate of withdrawal of assistance is 50 cents for each $1 of private income above these levels; and

- under the benefit income test, assistance is withdrawn when private income exceeds $6 a week ($3 a week for single beneficiaries under 21 years); the rate of withdrawal is then $1 for every $1 of private income.

Other differences in social security income tests include the provision of an income-test-free payment to those 70 years and over, and income-test-free pensions for invalid pensioners who are permanently blind.

The rationale for the difference in income tests has related to the fact that pensions are for longer-term contingencies - age, invalidity, widowhood, sole parenthood - while benefits are generally for short-term contingencies. By definition, the sick are unable to work and the unemployed must be actively seeking full-time work. On the basis that their absence from work is temporary, a more stringent income test can be supported. Such an income test also limits the degree to which beneficiaries might receive more than they would in full-time employment. On the other hand, the more liberal income test for people receiving pensions may provide encouragement for them to supplement their pension income through their own efforts.

The Commission of Inquiry into Poverty defended the steeper income test for those with temporary disabilities on the basis of equity (such people are more akin to full-time workers and therefore should not be able to have higher incomes) and the nature of their disabilities (sickness and unemployment are 'scarcely compatible with earning an income'). But as the average duration on unemployment benefit has increased this rationale has come into question. Proposals have been put forward to ease the benefit income test to encourage beneficiaries to take up casual work. Generally these proposals have not suggested that the benefit income test be replaced in full by the pension income test because of considerations of incentives for full-time work and equity between beneficiaries and full-time workers. From November 1980, the benefit income test was relaxed: assistance is now withdrawn by $1 for every $2 of private income between $6 and $50 a week for beneficiaries aged 18 and over (between $3 and $40 for single beneficiaries aged 16 and 17 years) and then by $1 for every $1 of private income.

The pension and benefit income tests, on their own, do not determine net assistance or the rate of withdrawal of net assistance as private income increases. Account must also be had of the personal income tax system and, in particular, of the taxability of pensions and benefits.

For the purposes of this chapter, the Consumer Price Index (CPI) and Average Weekly Earnings per employed male unit (AWE) have been used as deflators for measuring movements in the purchasing power of assistance and for measuring movements in assistance relative to general community incomes. There are deficiencies in doing this, e.g. the CPI may not be relevant to pensioner consumer behaviour, and AWE is a measure of before-tax incomes and does not satisfactorily take account of changes in female earnings. The authors considered, however, that these deflators do allow reasonable comparisons to be made over time and that the other deflators available that could have been used are subject to no less serious objections.

Pensions - Basic Forms of Interaction with Personal Income Tax

Prior to 1969, pensions were subject to a means test with a 100 per cent withdrawal rate and were exempt from income tax. An age allowance in the

personal income tax system ensured that generally there was no overlap between income tax and the means test. Since that time, there have been a number of changes which have resulted in a greater degree of interaction between the social security and income tax systems.

The major policy changes which have affected the means/income-testing and taxability of pensions since 1969 have been:

- the introduction of the tapered means test in 1969 which reduced the withdrawal rate above the free area from 100 per cent to 50 per cent;

- a doubling of the free area to $20 (single), $34.50 (married) for pensions in 1972;

- the abolition of the means test on age pensions for persons aged 75 and over in 1973; at the same time pensions were made taxable for all people of age pension age and the age allowance (which was designed to avoid or reduce the overlap between the income test and tax system) was phased out. At the same time changes to the taxation system, including increases in the tax threshold, had the effect of ensuring that most pensioners with little or no private income were not liable to pay tax;

- a reduction in the age at which the means test ceased to apply for age pensions from 75 to 70 years in 1975;

- the extension of income tax in 1976 to widows' pensions, supporting mothers' benefits and repatriation service pensions on account of age payable to people below age pension age;

- the replacement of the pensions means test with a test on income alone in 1976; and

- the re-imposition of a partial income test on pensioners (except pensioners who are blind) aged 70 years and over in 1978.

As a result of these changes four basic arrangements currently apply for different categories of pensioners. Pensions may be income-tested or income-test-free; they may also be taxed or exempt from tax. Prior to 1973, all pensions were means-tested and exempt from tax. In 1973, the means test was abolished for age pensioners 75 years and over. The implications of abolishing the means test for a tax-exempt pension for a single person are illustrated in Figures III.3A and III.3B. For purposes of the illustration, the tax scale, pension rates and pension income test applying at December 1979 have been used, and it has been assumed that private income treated as income for income-test purposes is also treated as income for income tax purposes. There are differences in the definition of income for tax and social security purposes. For example, repatriation disability pensions are exempt from tax but are treated as income for social security income test purposes.

As shown, the effects of abolishing the income test for tax exempt pensions are:

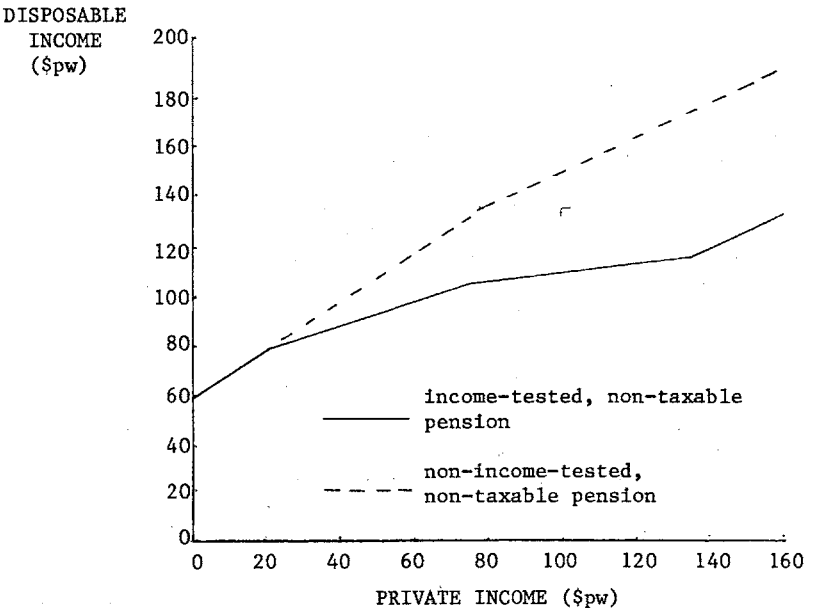
- to increase disposable incomes for everyone with private income above the pension income test 'free areas'. The maximum increase is equal to the maximum rate of pension and is provided to all those with private income above the pension income test cut-out points; and

- to reduce effective marginal tax rates. The very high rates that apply to a tax-exempt income-tested pension result where private income exceeds the tax threshold. From then until private income reaches the cut-out points, for every extra dollar of income,

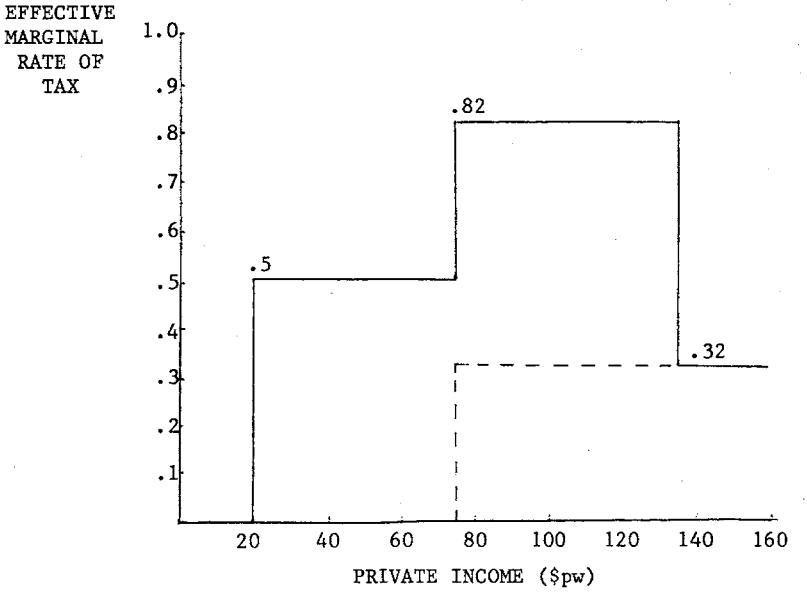
Figure III.3

INCOME-TESTING A TAX-EXEMPT PENSION FOR A SINGLE PERSON

III.3A



III.3B



pension is reduced by 50 cents but, as taxable income increases by a full dollar, tax of 32 cents is also payable.

The government decided in 1973 to combine the abolition of the means test with the taxing of relevant pensions. By so doing, the cost of abolition of the means test, and the extent to which high income groups would benefit, was partly offset. The implications of taxing an income-test-free pension for a single person are illustrated in Figures III.4A and III.4B.

As shown, the effects of taxing income-test-free pensions are:

- to reduce disposable incomes for those whose private income plus the income-test-free pension is above the tax threshold; and

- to reduce the level of private income at which income tax becomes payable. At December 1979, tax became payable for a single person when private income reached about $17.00 a week.

Comparing these effects with Figures III.3A and III.3B, it can be seen that the replacement of income-tested, tax-free pensions by income-test-free, taxed pensions:

- increases the disposable income of most people whose private income exceeds the income-test-free areas. Some losses occur around the free area because the tax threshold is lower than the pension free area when the pension is taxed; and

- sets the effective marginal tax rate at 32 per cent rather than 50 and 82 per cent between the income-test-free area and the income test cut-out points.

At the time of abolition of the means test for those aged 75 and over, not only were these means-test-free pensions made taxable but, in addition, all pensions for those of age pension age were taxed. One reason for this was that some people would be worse off with a means-test-free taxable pension than with a means-tested tax-free pension. Subsequently, most other pensions have been made taxable. The main exception is invalid pensions for those below age pension age. The implications of taxing an income-tested pension for a single person are illustrated in Figures III.5A and III.5B.

As shown, the effects of taxing income-tested pensions are:

- to reduce the disposable income of those pensioners whose pension and non-pension income is equal to or exceeds the tax threshold; and

- to smooth effective marginal tax rates - some rates are reduced and others are increased. For a taxed, income-tested pension where private income exceeds the tax and income-test thresholds, 50 cents is lost in pension for every extra $1 of private income but tax is payable only on the 50 cent increase in taxable income.

Comparing these effects with Figures III.4A and III.4B, it can be seen that abolition of the income test for a taxable pension:

- increases the disposable income of all those with private income above the income-test-free area; and

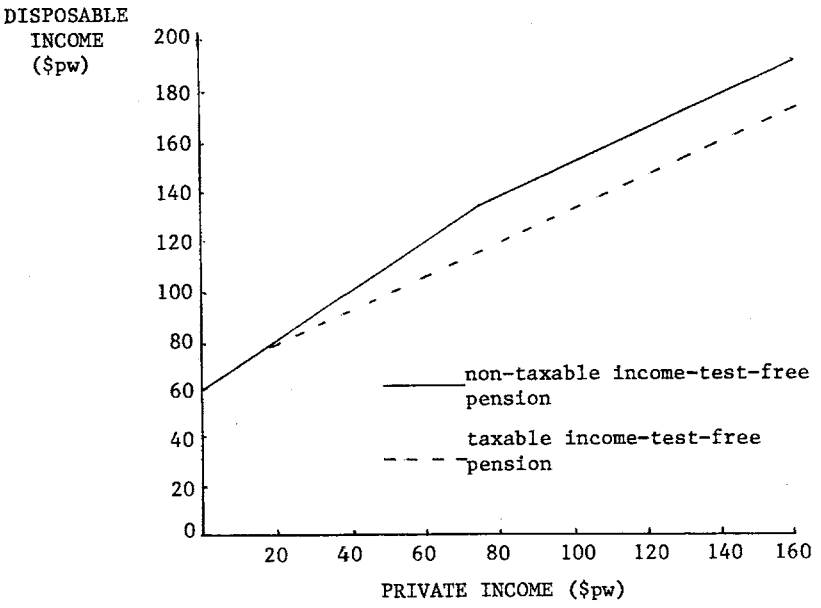
- replaces the 66 per cent effective marginal tax rate between the free area and the cut-out point by a 32 per cent rate.

The effects of income tests and tax on pensions for married people are similar to those illustrated above for single people, but are rather more complex because the income test applies to the joint income of husbands and

Figure III.4

TAXING AN INCOME-TEST-FREE PENSION FOR A SINGLE PERSON

III.4A



III.4B

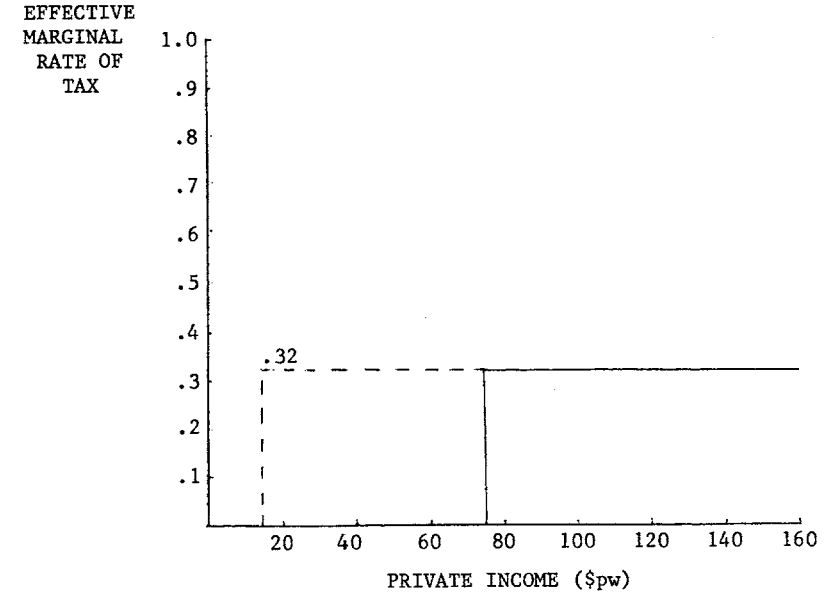
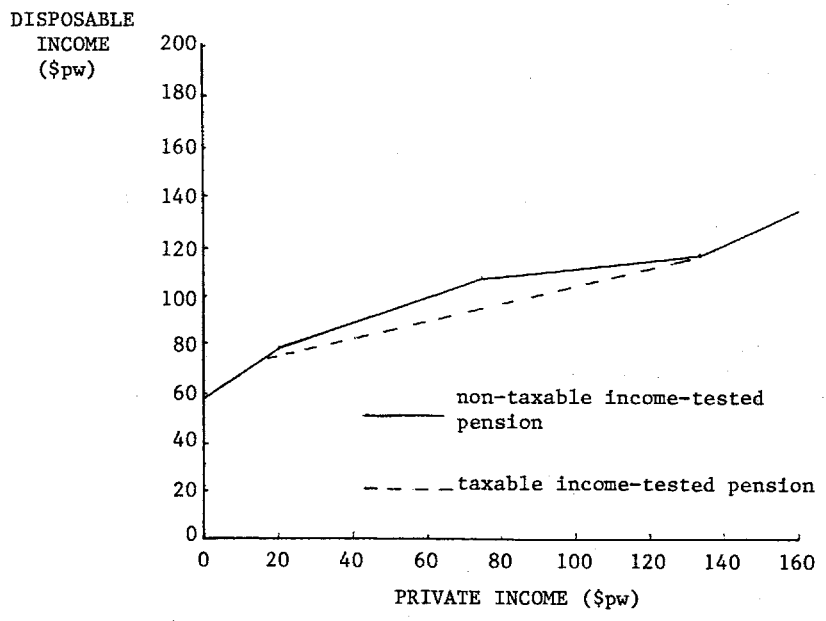


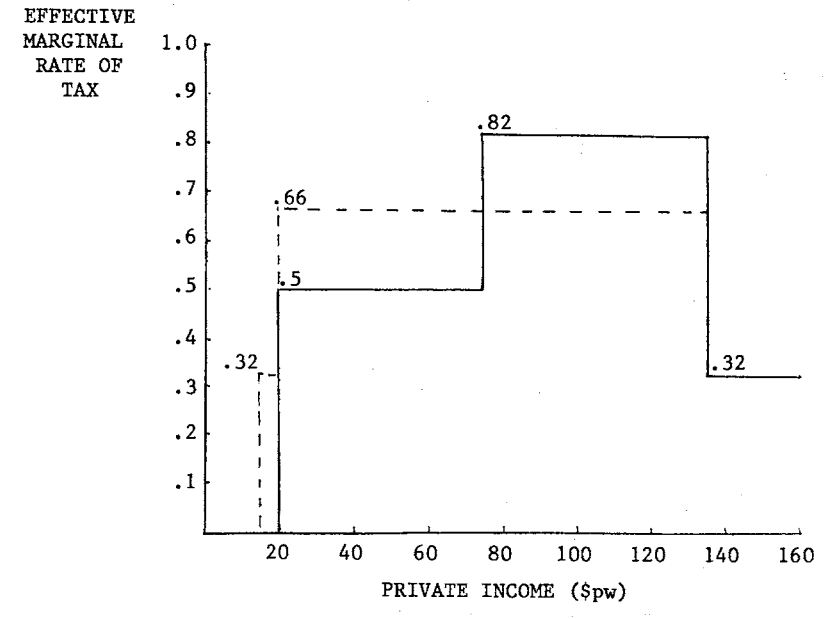
Figure III.5

TAXING AN INCOME-TESTED PENSION FOR A SINGLE PERSON

III.5A



III.5B



wives (though their pensions are separately paid) while the tax system is based essentially on individual incomes (though a dependent spouse rebate is available subject to a separate net income test for which pensions, whether taxable or not, are treated as income).

Additional pensions for children, mother's/guardian's allowance and supplementary assistance are not taxed. The effects of taxing the two payments for children, which are paid as additional pension and subject accordingly to the pension income test, would be similar to the effects shown above of taxing income-tested pensions. Even where the basic pension, or part of it, is income-test-free, these payments are subject to income test. The only exception is in respect of additional pension for the first child of a permanently blind age or invalid pensioner. The effects of taxing supplementary assistance, which is subject to its own income test within the pension free areas, would be negligible at present as nearly all recipients would have taxable income below the tax threshold.

Details of how the effects of income tests and tax may be calculated for various single pensioners, married pensioners, and pensioners with children are provided in Attachment B together with some further illustrations.

Pensions - Other Possible Interactions with Personal Income Tax

The above gives some indication of the *different* effects of taxing or not taxing, and of income-testing or not income-testing, pensions. Another way of illustrating the interaction of income tests and income tax is to show how broadly *similar* results can be achieved by different combinations of tax and income-test measures.

Single pensioners may face 'effective marginal tax rates' of about 50 per cent above the current income-test-free area in the following ways:

A A taxable, income-tested pension with an income test withdrawal rate of 25 cents in the dollar above the free area, and a tax threshold equal to the pension plus the free area (the 25 per cent taper and the 32 per cent standard rate of tax would provide an effective marginal tax rate of 49 per cent).

B A taxable, income-test-free pension with a tax threshold equal to the pension plus the free area, and with a tax rate of 50 cents in the dollar. (If the standard marginal tax rate of 32 per cent were to apply to the general population, this option would involve a tax surcharge for pensioners of 18 cents in the dollar that applied from the tax threshold to a point no higher than where the additional tax collected exceeded the pension.)

C A tax-free, income-tested pension with an income test withdrawal rate of 50 cents in the dollar above the free area, and a tax threshold equal to the pension cut-out point. (If a general tax threshold equal to the pension plus the free area were to apply to the general population, this option would involve a special tax rebate for people in pensioner categories to give the higher tax threshold required.)

D A two-tiered non-taxable pension comprising:
- an income-tested payment subject to a 50 per cent taper above the free area. The level of this payment would be such that the payment cut out when private income reached the tax threshold;

- an income-test-free payment to ensure that the maximum total payment was equal to the normal full pension level.

Essentially, options A and B are the same except that A uses both the Taxation Office and the Department of Social Security to 'claw-back' entitlement while B relies only on the Taxation Office.

Options C and D are also very much alike. Both avoid the pension income test and the tax system overlapping: C relies on a special tax rebate while D avoids overlap by income-testing only part of the pension. These options would be more expensive than A or B as they both provide some assistance on a universal basis. C would be slightly less expensive than D as the 50 per cent taper would apply on private income from the free area to the total pension cut-out point while, under D, the 50 per cent taper would apply only up to the general tax threshold.

Figures III.6A and III.6B illustrate the effects of these options.

The above options would each have practical problems of one sort or another particularly if the options were to be extended to incorporate arrangements for married couples.

While the options are all broadly similar, and their overall costs would only vary as shown above, they would lead to very different statistics on numbers of pensioners and levels of social security outlays. While the relative net cost of the scheme would be, in ascending order, B, A, C and D, the relative level of social security outlays would probably be C, A, D and B.

Benefits - Interaction with Personal Income Tax

Unemployment and sickness benefits, including additional benefits for spouses and children and supplementary allowance, became taxable from 1 July 1976. This substantially reduced the extent to which it was possible for a beneficiary to derive more in disposable income while on benefit than in employment.

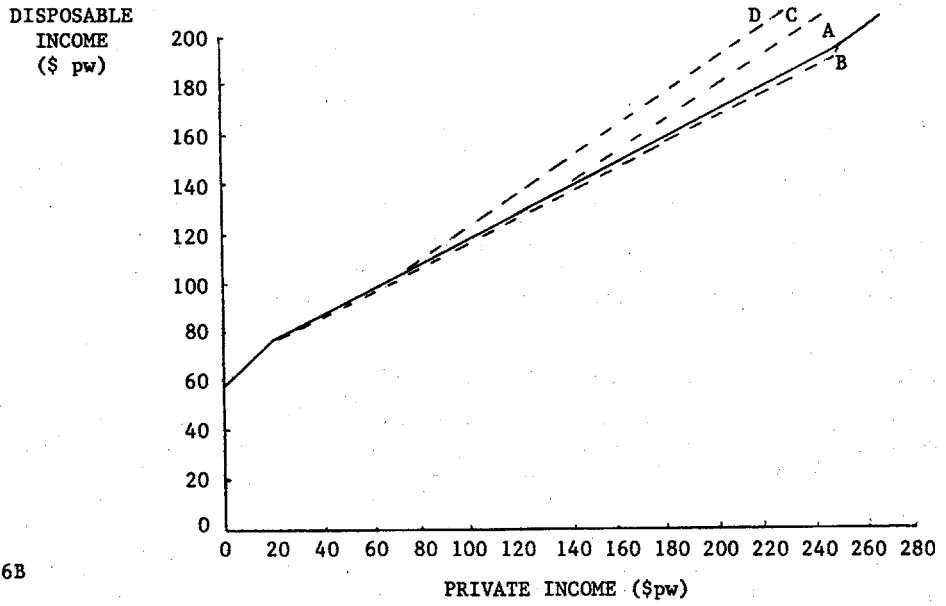
The system by which tax is collected on unemployment benefits raises few problems for the great majority of beneficiaries. The rate of unemployment benefit for most beneficiaries is well below the weekly equivalent of the annual tax threshold. If such a beneficiary lodges a tax instalment declaration, no tax is deducted at the time payments are made. It is only in those cases where the benefit payable is above the weekly equivalent of the tax threshold - for married beneficiaries with 2 or more children and single beneficiaries with 6 or more children at December 1979 - and an instalment declaration is lodged that some tax may be payable in a lump sum on assessment at the end of the financial year. Problems can occur where a beneficiary receives income from casual work. Tax instalments will generally be deducted from the earned income, while benefits will be reduced according to the gross earnings. At the time, therefore, a beneficiary's immediate disposable income may be reduced as a result of casual work. Although the effective marginal tax rate would not exceed the 100 per cent benefit withdrawal rate after final assessment at the end of the financial year, the beneficiary's decision whether to take up casual work might be influenced by the immediate effects.

Nonetheless, the taxing of the benefits has a substantial revenue effect. Income tax assessments are made on the basis of total taxable income received in a financial year. Unless a person is on benefit for most of the year, he or she will in the normal course of events receive sufficient income from employment to take his of her total income above the annual tax threshold. Thus tax will effectively be payable on the benefits when tax for the year as a whole is assessed. It is thought, however, that most people who have received benefits during a financial year will not face a tax liability on assessment at the end of the year because tax instalments made under 'pay-as-you-earn' arrangements during employment will normally be enough to cover tax on total taxable income (including unemployment benefits) for the year.

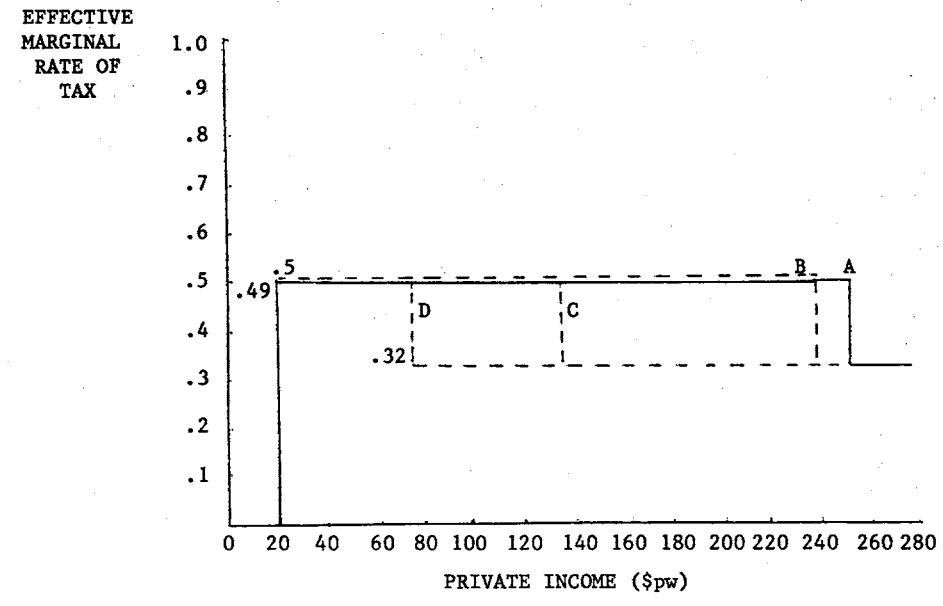
Figure III.6

OTHER ARRANGEMENTS RESULTING IN EFFECTIVE MARGINAL TAX RATES
OF ABOUT 50 PER CENT

III.6A



III.6B



Summary

The appropriate distribution of incomes is a matter for political and social judgment. For pensioners and beneficiaries, the main determinants of this dispersion are:

- the maximum levels of social security payments;

- the social security income tests including:
  - whether an income test applies;
  - the income-test threshold or 'free areas'; and
  - the income-test rate of withdrawal; and

- the personal income tax system:
  - whether payments are taxed;
  - the tax threshold (after allowing for the effects of rebates for dependants). Special tax thresholds for pensioners are possible e.g. through the operation of an 'age allowance'; and
  - the income tax rate scale. It has been suggested e.g. by the Taxation Review Committee (Asprey Report) that a special tax rate could apply to pensioner categories in place of the pension income test.

While in-principle arguments are sometimes put forward about income-testing or taxing pensions and benefits, final judgment should be based on the distribution of disposable incomes effected by the interaction of the two systems and the net revenue effect. As can be seen from the above analysis, the interaction of the determinants is not always obvious and a given result may be achieved in different ways at different apparent levels of social security outlays and taxation revenues.

III.3 ISSUES RELATING TO HORIZONTAL EQUITY

Assistance for dependants is provided, either through the personal income tax system or the social security system, in recognition of the costs of dependants that reduce the capacity of those with dependants to pay tax or that increase the need of those with dependants for additional assistance. Prior to the 1975-76 income year, assistance for dependants was given in the form of demogrants for dependent children (child endowment) and income tax concessional deductions for dependent children and dependent spouses. Concessional deductions, which had the effect of reducing a person's taxable income, had two major drawbacks:

- persons whose income before concessional deductions was below the tax threshold received no benefit and persons whose income before concessional deductions was marginally above the threshold received less than the full deduction; and

- because of the progressive income tax scale, the amount of effective assistance was higher for taxpayers on higher incomes.

In September 1974 a minimum value of 40 per cent for concessional deductions in respect of dependants was introduced. In addition, the limits for claims for educational expenses (incurred by a taxpayer on his own behalf or in respect of a dependant under 25) were reduced from $400 to $150.

In 1975-76 concessional deductions for a dependent spouse and children were abolished and replaced by rebates which, in terms of tax saved, were considerably greater in value than the deductions they replaced. The general concessional deductions for education, life insurance, superannuation, etc. were absorbed by the special rebate for most taxpayers in 1975-76. It is likely that

prior to 1975-76 those with dependants usually were able to claim more such deductions than those without dependants. A new rebate for sole parents was also introduced. As before, the total tax saving could not exceed tax otherwise payable. Thus the second drawback of the previous tax deduction arrangement was eliminated, but the problem of people with low incomes receiving little or no benefit remained. No change in rates of child endowment was made.

The new rebates for children were abolished in 1976-77 and a system of demogrants, known as family allowances, was introduced. These family allowances are in fact a continuation of the previous child endowment system except that the rates are substantially higher. Accordingly, the first drawback of the tax deduction arrangements was also eliminated in the case of assistance for children. One effect of the change was to provide all assistance direct to mothers in most cases whereas previously, most of the assistance for children was provided via reduced tax paid by fathers. In Australia, little attention has been focused on the issue of which parent should receive the assistance for dependent children; this has been the subject of much debate in some overseas countries. Furthermore, eligibility was extended to include full-time student children aged 21 and under 25, as had been the case for the previous tax rebates for dependent children. Previously, eligibility for child endowment ceased when the student child turned 21. Rebates for a dependent spouse and sole parent were retained.

Not only have there been changes to the structure of assistance for dependants but, as well, there have been changes in the levels of assistance. The changes over the last 25 years in the value of assistance for dependants of a person on average earnings are shown in Tables III.2 and III.3 in terms of money values, constant-price values, values in relation to movements in average earnings and values in relation to movements in after-tax incomes. It is not possible to draw firm conclusions about the overall changes in assistance since 1954-55. This is due primarily to the removal of general concessional deductions in 1975-76 that previously were likely to have assisted those with dependants more than those without.

As shown in Table III.2, however, assistance for a dependent spouse increased broadly in line with earnings and disposable incomes up until 1975-76. Since 1975-76 this assistance has again kept pace with earnings. The 34 per cent increase for 1980-81 increased significantly assistance for a dependent spouse in money and real terms and relative to both earnings and disposable incomes. The marked increase in the value of assistance for a dependent spouse shown in the table for 1975-76, does not provide a true indication of the extent to which *total* assistance in respect of a dependent spouse increased; the increase would have been at least partially offset for most taxpayers by the removal of general concessional deductions in that year. These deductions have not been taken into account in the table. Nevertheless, it is likely that total assistance in respect of a dependent spouse would have increased for most taxpayers - e.g. for a taxpayer on average earnings, the previous general concessional deduction in respect of expenditure for a dependent spouse would have had to exceed some $240 in value in 1974-75 to fully offset the increased value of the dependent spouse allowance.

As shown in Table III.3, assistance for dependent children kept pace with prices prior to 1975-76 but fell relative to earnings and disposable incomes. Since 1975-76 they have also fallen significantly relative to price movements. The jump shown in the table for 1975-76 is again difficult to interpret. For a person on average earnings, assistance would have increased so long as the value of general concessional deductions in respect of the two children (not including the specific deduction for children) did not exceed some $155 in 1974-75.

Figure III.7 illustrates the changes in the value of assistance for dependent children in relation to movements in after-tax incomes for taxpayers

Table III.2

VALUE OF ASSISTANCE FOR DEPENDENT SPOUSE FOR A TAXPAYER ON AVERAGE EARNINGS*, 1954-55 to December 1980

YEAR	CONCESSIONAL DEDUCTION/ REBATE**	MONEY VALUE	REAL VALUE (DEC. 1979 PRICES)	EQUIVALENT NUMBER OF WEEKS OF AWE	PERCENTAGE OF DISPOSABLE INCOME FOR SINGLE TAXPAYER ON AWE
	$p.a.	$p.a.	$p.a.		
1954/55	260	44.20	170	1.3	2.7
1955/56	260	47.30	175	1.3	2.8
1956/57	260	48.80	170	1.3	2.7
1957/58	286	55.60	192	1.4	3.0
1958/59	286	57.80	196	1.4	3.1
1959/60	286	58.80	195	1.3	2.9
1960/61	286	62.00	197	1.3	3.0
1961/62	286	62.10	197	1.3	2.9
1962/63	286	63.00	199	1.3	2.8
1963/64	286	66.70	209	1.3	2.9
1964/65	286	72.50	219	1.3	3.0
1965/66	286	77.70	227	1.3	3.0
1966/67	286	78.80	224	1.3	2.9
1967/68	312	91.90	253	1.4	3.3
1968/69	312	96.20	258	1.4	3.2
1969/70	312	102.70	267	1.3	3.2
1970/71	312	102.00	253	1.2	2.8
1971/72	312	105.40	245	1.1	2.7
1972/73	364	121.20	265	1.2	2.8
1973/74	364	130.00	252	1.1	2.7
1974/75	364	160.20	266	1.1	2.7
1975/76	400	400.00	588	2.4	5.9
1976/77	500	500.00	646	2.6	6.5
1977/78	555	555.00	654	2.6	6.5
1978/79	597	597.00	651	2.6	6.6
1979/80	597	597.00	597	2.4	6.1
Dec 1980	800	800.00	723	2.9***	7.3***

* Assumes no general concessional deductions claimed.
** Assistance has been provided in the form of a rebate since 1975/76.
*** Based on an estimated seasonally adjusted AWE of $273.00 for Dec 1980.

Table III.3

VALUE OF ASSISTANCE IN RESPECT OF 2 CHILDREN* FOR A TAXPAYER ON AVERAGE EARNINGS, 1954-55 to December 1980

YEAR	ALLOWANCES FOR 2 CHILDREN **	MONEY VALUE	REAL VALUE (DEC. 1979 PRICES)	EQUIVALENT NUMBER OF WEEKS OF AWE	PERCENTAGE OF DISPOSABLE INCOME FOR SINGLE INCOME COUPLE ON AWE
	$p.a.	$p.a.	$p.a.		
1954/55	338	116.90	449	3.4	7.1
1955/56	338	119.80	442	3.3	6.8
1956/57	338	121.40	423	3.2	6.6
1957/58	390	131.20	453	3.3	7.0
1958/59	390	131.60	447	3.2	6.8
1959/60	390	133.00	441	3.0	6.4
1960/61	390	140.40	447	3.1	6.6
1961/62	390	139.40	442	2.9	6.2
1962/63	390	141.00	446	2.9	6.2
1963/64	390	140.20	440	2.7	5.8
1964/65	390	152.70	462	2.8	5.9
1965/66	390	156.70	457	2.7	6.0
1966/67	390	160.60	456	2.6	5.8
1967/68	442	177.30	488	2.7	6.1
1968/69	442	182.90	490	2.6	5.9
1969/70	442	189.90	493	2.5	5.7
1970/71	442	188.60	468	2.2	5.1
1971/72	442	199.20	462	2.1	5.0
1972/73	546	224.00	490	2.2	5.1
1973/74	546	238.40	462	2.0	4.8
1974/75	546	276.70	459	1.9	4.5
1975/76***	428	428.00	629	2.5	5.9
1976/77	442	442.00	571	2.3	5.4
1977/78	442	442.00	521	2.1	4.9
1978/79	442	442.00	482	2.0	4.6
1979/80	443	442.80	443	1.8	4.2
Dec 1980	443	442.80	401	1.6****	3.8****

* Assumes no general concessional deductions claimed.

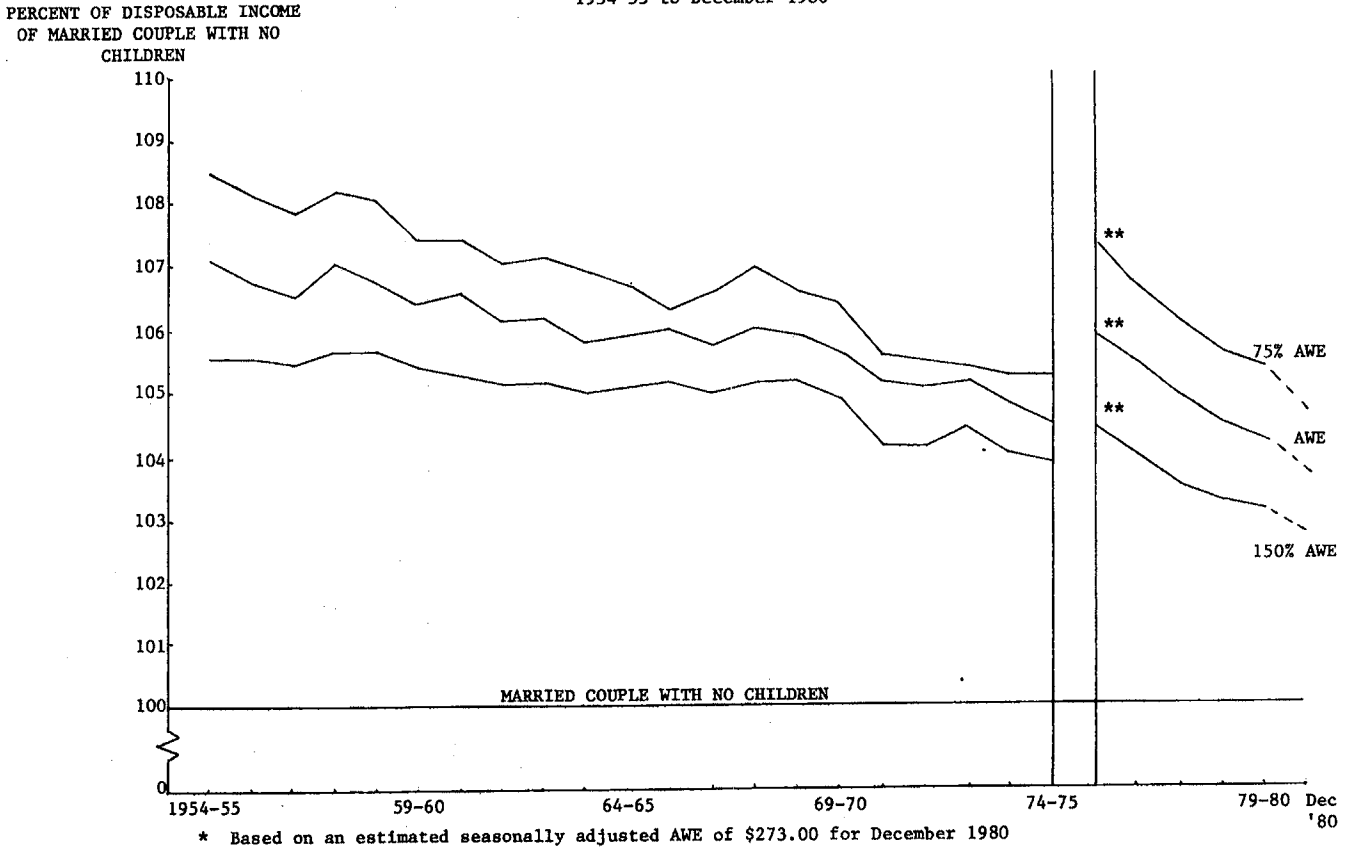
** Second child assumed to be a non-student for purposes of concessional deduction.

*** Up until 1975-76 assistance was provided in the form of concessional deductions and child endowment. In 1975-76, concessional deductions were replaced by rebates. Since 1976, assistance has been provided in the form of family allowances.

**** Based on an estimated seasonally adjusted AWE of $273.000 for December 1980.

Figure III.7

TOTAL DISPOSABLE INCOME FOR FAMILY WITH 2 CHILDREN AS PROPORTION OF TOTAL DISPOSABLE INCOME OF MARRIED COUPLE WITH NO CHILDREN, 1954-55 to December 1980*



* Based on an estimated seasonally adjusted AWE of $273.00 for December 1980

** Introduction of General Rebate - see pp. 51-52.

at different levels of income - average earnings, 75 per cent of average earnings and 150 per cent of average earnings.

The trends in assistance for dependants for taxpayers on varying income levels are broadly similar. Very low income groups, however, would have had their assistance increased in 1976-77. As mentioned above, it is difficult to interpret the impact of the introduction in 1975-76 of the tax rebate system. The reduced real value of assistance for children since 1975-76 has meant a reduced real budget cost (though families with incomes below the tax threshold did gain in 1976). But social security outlays on this item increased in money terms between four and five times. Most of this apparent welfare cost was merely a transfer as tax revenue was increased accordingly.

Summary

Just as the appropriate distribution of income vertically is a matter for political and social judgment, the appropriate distribution of incomes horizontally is also a matter for judgment. There is a number of mechanisms by which those with dependants can be assisted, including:

- concessional deductions from taxable income;
- tax rebates (or tax 'credits'); and
- demogrant payments such as family allowances.

Another mechanism is simply to change the unit for tax or social security purposes. For example, if the unit for tax purposes were the couple instead of the individual, and income-splitting between couples were allowed, assistance for dependent spouses would be significantly increased. In fact, the effects of income-splitting could be achieved by a direct increase in the spouse rebate, with additional rebates for taxpayers facing the income tax surcharges at higher levels. Similarly, the effects of income-splitting with children could be achieved by very substantial increases in family allowances with additional payments for high income taxpayers.

A number of countries have moved, in recent years, away from providing assistance for dependants through the tax system to providing assistance via direct cash benefits - see International Social Security Association (ISSA), Studies and Research No. 13, *Social Security and Taxation*, Report of an Expert Group Meeting (Jerusalem, 12-14 December 1978). Countries include the United Kingdom, New Zealand, Israel, Denmark and the Federal Republic of Germany. Interestingly, according to the ISSA report, one of the reasons for this shift may have been the declining value of child tax allowances due to inflation in a number of countries - 'The problem of course could be solved by indexing the allowances, but indexing the tax system has many disadvantages and complications, so governments may have found it simpler to remedy the erosion of children's allowances by moving from the tax system to the social security system' (p.118.). Australian experience has been the reverse: the personal income tax system has been indexed while the child allowances have not (though personal income tax indexation has also been abandoned since December 1979).

While each mechanism for assisting dependants will have its own effect on indicators such as welfare spending or taxation revenue, final judgment on their appropriations must be based on the impact on the distribution of incomes between those with dependants and those without and the net effect on revenue.

III.4 RELATIONSHIP BETWEEN VERTICAL AND HORIZONTAL EQUITY

There can be difficulties in balancing concerns between vertical and horizontal equity. It is sometimes argued that the alleviation of poverty should be the only concern of income security and that payments designed to promote horizontal equity should not be made at the expense of this objective. Assistance for dependent children has moved from a system of concessional deductions (which were of more benefit to higher income taxpayers) through a system of tax rebates (which were of equal value to all taxpayers) to a system of universal cash payments (which are of equal value to taxpayers and non-taxpayers alike). Assistance for dependent spouses has moved from concessional deductions to rebates, but remains in the tax system. Assistance for sole parents is provided both through tax rebates and through income-tested pension payments. Despite the similarity between the tax rebates and family allowances there have been few, if any, suggestions to concentrate the tax rebates on low income groups. On the contrary, one proposal regarding the dependent spouse rebate is to increase it for taxpayers on high incomes. This could be designed to give the same effect as income-splitting for tax purposes for couples.

There have been suggestions, however, that family allowances should be more concerned with vertical redistribution. Family allowances might be restricted by subjecting them either to tax or to an income test.

Taxation of Family Allowances

The main options for taxing family allowances under current personal income tax arrangements are:

- taxing them in the hands of the recipient, in which case they might also be treated as income for purposes of the separate net income test for the dependent spouse tax rebate; and
- taxing them in the hands of the higher income earner.

The effects on disposable incomes of *taxing family allowances in the hands of recipients* but not treating them as income for purposes of the separate net income test for the dependent spouse tax rebate would be:

- generally to leave unaffected single-income two-parent families regardless of their income;
- generally to reduce the net assistance for children in two-income families who would be liable to pay tax on the payments. In most cases tax would be payable at the standard rate because the mother's taxable income would be above $3,893 and below $16,608; and
- to reduce the net assistance for children of sole parents whose total taxable income was above the tax threshold ($5,196 at December 1979). Generally they would pay tax on their allowances at the standard rate as most would have taxable incomes below $16,608.

Taxing family allowances in the hands of recipients but not treating them as income for purposes of the dependent spouse rebate would generally result in the levels of net assistance for children set out in Table III.4.

If family allowances were also treated as income for purposes of the dependent spouse rebate single-income two-parent families with two or more children would have their entitlement to the dependent spouse rebate reduced even if the mother had no private income. While families with no children or one child would continue to receive the full benefit of the dependent spouse rebate, the value of the rebate would be reduced as family size increased. The

Table III.4

NET ASSISTANCE FOR CHILDREN IF FAMILY ALLOWANCE TAXED IN HANDS OF RECIPIENTS BUT NOT TREATED AS INCOME FOR SPOUSE REBATE PURPOSES

Number of Children	Family Allowance Payments	Net Assistance for: Single-Income Family	Two-Income Family*	Sole Parent**
	$p.a.	$p.a.	$p.a.	$p.a.
1	182.40	182.40	124.04	124.04
2	442.80	442.80	301.11	301.11
3	754.80	754.80	513.27	513.27
4	1,066.80	1,066.80	725.43	725.43
5	1,431.00	1,431.00	973.08	973.08
10	3,252.00	3,252.00	2,211.36	2,211.36

* Assumes wife's taxable income, including family allowances is between $3,893 p.a. and $16,608 p.a.

** Assumes sole parent's taxable income, including family allowances, is between $5,196 p.a. and $16,608 p.a.

vast majority of non-pensioner/beneficiary families would have their net assistance reduced. The main exception would be single-income two-parent families with one child. The reduction in net assistance for children would bear no strict relationship to total family income.

Taxing family allowances in the hands of the recipient and treating them as income for purposes of the dependent spouse rebate would generally result in the levels of net assistance for children set out in Table III.5.

In terms of private income the tax thresholds for the person receiving family allowances would be reduced by the amount of the payments, and the tax threshold for a person with a dependent spouse would be reduced where the spouse rebate was reduced.

The effects of *taxing family allowances in the hands of the higher income earner* would be to cause most families to pay tax on their allowances. The main exceptions would be pensioners and beneficiaries with little or no other income and few children. The amount of assistance for children would be effectively reduced for families affected by the appropriate marginal tax rate. In most cases this would be a flat 32 per cent reduction. Some would effectively lose 46 or 60 per cent of their family allowances.

Income-Testing Family Allowances

The main option for income-testing family allowances is to restrict payment on the basis of the combined income of the parents. Full payments could be made until combined income reached, say, average weekly earnings; payments might then be reduced by, say, 10 cents for every dollar of combined income in excess of AWE. The effects on net assistance for children of income-testing family allowances in this way are illustrated in Table III.6.

Effective marginal tax rates for families with children would generally be increased by 10 cents in the dollar over the ranges of income where allowances were being reduced. In single-income families, if the mother considered taking up paid employment she would be effectively taxed at the rate of 10 per cent on the first dollar earned; further, over the range in which the dependent spouse

Table III.5

NET ASSISTANCE FOR CHILDREN IF FAMILY ALLOWANCE TAXED IN HANDS OF RECIPIENT AND TREATED AS INCOME FOR SPOUSE REBATE PURPOSES

Number of Children	Family Allowance Payments	Net Assistance for:		
		Single-Income Family***	Two-Income Family*	Sole Parent**
	$p.a.	$p.a.	$p.a.	$p.a.
1	182.40	182.40	124.04	124.04
2	442.80	382.85	301.11	301.11
3	754.80	616.85	513.27	513.27
4	1,066.80	850.85	725.43	725.43
5	1,431.00	1,124.00	973.08	973.08
10	3,252.00	2,655.00	2,211.36	2,211.36

* Assumes wife's taxable income, including family allowances, is between $3,893 p.a. and $16,608 p.a.

** Assumes sole parent's taxable income, including family allowances, is between $5,196 p.a. and $16,608 p.a.

*** Following the increase in the dependent spouse rebate of $203 (and the increase in the level of exempt income) from 1 July 1980, net assistance for children in smaller single-income families would be $17.25 greater than shown, while net assistance for children in very large families would be further reduced by up to $185.75.

Table III.6

NET ASSISTANCE FOR CHILDREN IF FAMILY ALLOWANCES INCOME-TESTED*

Number of Children	Family Allowance Payments	Net Assistance for:			
		Families with Combined Income equal to or below AWE ($12,662p.a.)	Families with Combined Incomes equal to $15,000p.a.	Families with Combined Incomes equal to $20,000p.a.	Families with Combined Incomes equal to $25,000p.a.
	$p.a.	$p.a.	$p.a.	$p.a.	$p.a.
1	182.40	182.40	-	-	-
2	442.80	442.80	209.00	-	-
3	754.80	754.80	521.00	21.00	-
4	1,066.80	1,066.80	833.00	333.00	-
5	1,431.00	1,431.00	1,197.20	697.20	197.00
10	3,252.00	3,252.00	3,018.20	2,518.20	2,018.20

* Family allowances withdrawn by 10 cents for every dollar of combined income in excess of AWE.

rebate is withdrawn, the effective marginal rate of tax for the family would rise from 25 per cent to 35 per cent. On the other hand, if the father were to increase his income, he would pay additional tax at the appropriate marginal rate, while the mother would lose 10 cents in the dollar also. The effects on effective marginal tax rates would be more complicated where other entitlements e.g. pensions were being reduced over the same income ranges.

Other income-testing options include income-testing only part of the payments, income-testing on the basis of the total family income (including the income of children) or income-testing on the basis of the relevant child's income only. The last option currently applies in respect of family allowances for student children aged 16 or more, and applied generally under the former system of tax rebates for dependent children. This option is not strictly a vertical equity measure but may be considered essentially as a means of defining the term 'dependent'.

Summary

From time to time proposals are put forward to tax or income-test family allowances in one way or another. Any consideration of such proposals must first bear in mind the purposes of the payments and the appropriate balance between horizontal and vertical equity. Secondly, care must be taken that the effects of the particular option on disposable incomes and effective marginal tax rates are those desired. Currently the balance between horizontal and vertical equity in respect of assistance for children is achieved through universal family allowances and income-tested additional payments for the children of pensioners and beneficiaries.

III.5 COMPARISON OF CURRENT ARRANGEMENTS AND A PROPOSAL FOR FULL INTEGRATION OF SOCIAL SECURITY AND PERSONAL INCOME TAX

A number of groups have suggested not only that the social security and personal income tax systems should be viewed together, but that they should be fully integrated. The following compares one of these proposals for full integration with the combined effects of the current separate systems. The Commission of Inquiry into Poverty recommended, in the longer term, the introduction of a guaranteed minimum income scheme (GMI). The preferred scheme would involve:

- a two-tiered system of (non-taxable) benefits:
  - for those falling within certain specified groups (most of which are equivalent to current pension and benefit categories), maximum payments in excess of the 'at nome' Henderson poverty line which varies according to family size;
  - for the remainder, maximum payments of a little more than half the 'at nome' Henderson poverty line;
- a proportional tax on all private income of 40 cents in the dollar with a possible surcharge for the top 5 per cent of income earners involving a marginal tax rate for them of 60 cents in the dollar.

Special arrangements would obtain for families with two-income earners (so as not to disadvantage them too severely in comparison with current arrangements) and for the unemployed or sick (where 100 per cent income tests would apply so that they would not be placed in a better position than full-time workers).

The Henderson 'poverty line' is based on the 1966 Melbourne basic wage plus child endowment for a 'standard family' of husband, wife and two children, updated by movements in average weekly earnings. Equivalent 'poverty' incomes for families of different size and with family heads working or not working are derived by a system of equivalence ratios based on a 1954 New York study of expenditure patterns. There has been considerable criticism of the Henderson 'poverty line' and its usefulness as a benchmark for setting levels of social security payments is questionable. The following discussion is in no way meant as an endorsement (or otherwise) of the Henderson 'poverty line'.

The Poverty Inquiry also detailed a second scheme - the 'minimal scheme' - very similar to the above except that it would provide slightly less generous payments with a 35 per cent proportional tax rate. Detailed tables of the disposable incomes of different family units with different private incomes under current arrangements and under the Poverty Inquiry's preferred guaranteed income scheme are at Attachment C. For purposes of the comparison, figures for current arrangements are based upon pension and benefit entitlements as at December 1979 together with the tax system as at December 1979; supplementary assistance has not been included so that figures for current arrangements are arguably understated. But the Poverty Inquiry expected that supplementary payments for renters would continue under the proposed guaranteed income schemes. The Poverty Inquiry proposal, as detailed in the tables in Volume Two of the First Main Report has been updated by movements in average weekly earnings to December 1979. The figures in the tables in Volume 2 have been used even though they were rounded. While the rates of assistance recommended are generally related to the Henderson 'poverty line', there are important exceptions, particularly the rates for married couples which are significantly higher than other rates in relation to the 'poverty line'. No updated assessment has been made of the net revenue effects of the proposal, or the numbers affected because of the unavailability of comprehensive and up-to-date data on the distribution of private incomes by family size.

Non-Pensioners/Beneficiaries

A single person who does not fit into any of the pensioner/beneficiary categories would be better off under the guaranteed income proposal if his private income were below about $160 a week, but worse off if his income were higher than $160. At about $527 a week, however, his disposable income would be about the same as under current arrangements. As the minimum award wage at December 1979 was $129.50 a week, it can be expected that most single adults would be better off under current arrangements. The disposable income and effective marginal tax rates for single people under the guaranteed income scheme and under current arrangements are shown in Figure III.8.

The higher standard rate of tax together with the universal guarantee makes the guaranteed income scheme generally more 'progressive' than current arrangements - the losses generally get bigger as income increases. But this is offset to some extent at very high income levels because the proposed tax surcharge does not come into effect as early as the first of the current tax surcharges. The percentage change in disposable incomes is shown in Table III.7. The maximum marginal tax rate is, of course, the same under the guaranteed income scheme as currently applies so that the percentage difference will eventually approach zero.

The relative position of *single-income couples without children* is broadly similar to the above. The additional guaranteed income for a non-working spouse is slightly higher than the 1979-80 dependent spouse tax rebate ($15.55 a week compared to $11.48 a week). The spouse rebate in 1980-81 is $800 or $15.38 a week. A single-income couple without children would be better off under the proposal if their private income were below about $210 a week or above $460 a week.

The position of *two-income couples without children* is a little more complex because of the special provisions applying under the proposed scheme. Broadly, two-income couples with incomes in excess of about $160 per week would be better off under current arrangements. This analysis is based on the assumption that the higher income earner receives 60 per cent of total income.

Many *families with children* would benefit under the proposed scheme, with the benefits increasing as the number of children increases, and the income range over which families would benefit also increasing as the number of children increases. Generally, the benefits would be greatest over lower income

Figure III.8

COMPARISON OF CURRENT ARRANGEMENTS AND HENDERSON GMI
FOR SINGLE NON-PENSIONER/BENEFICIARY

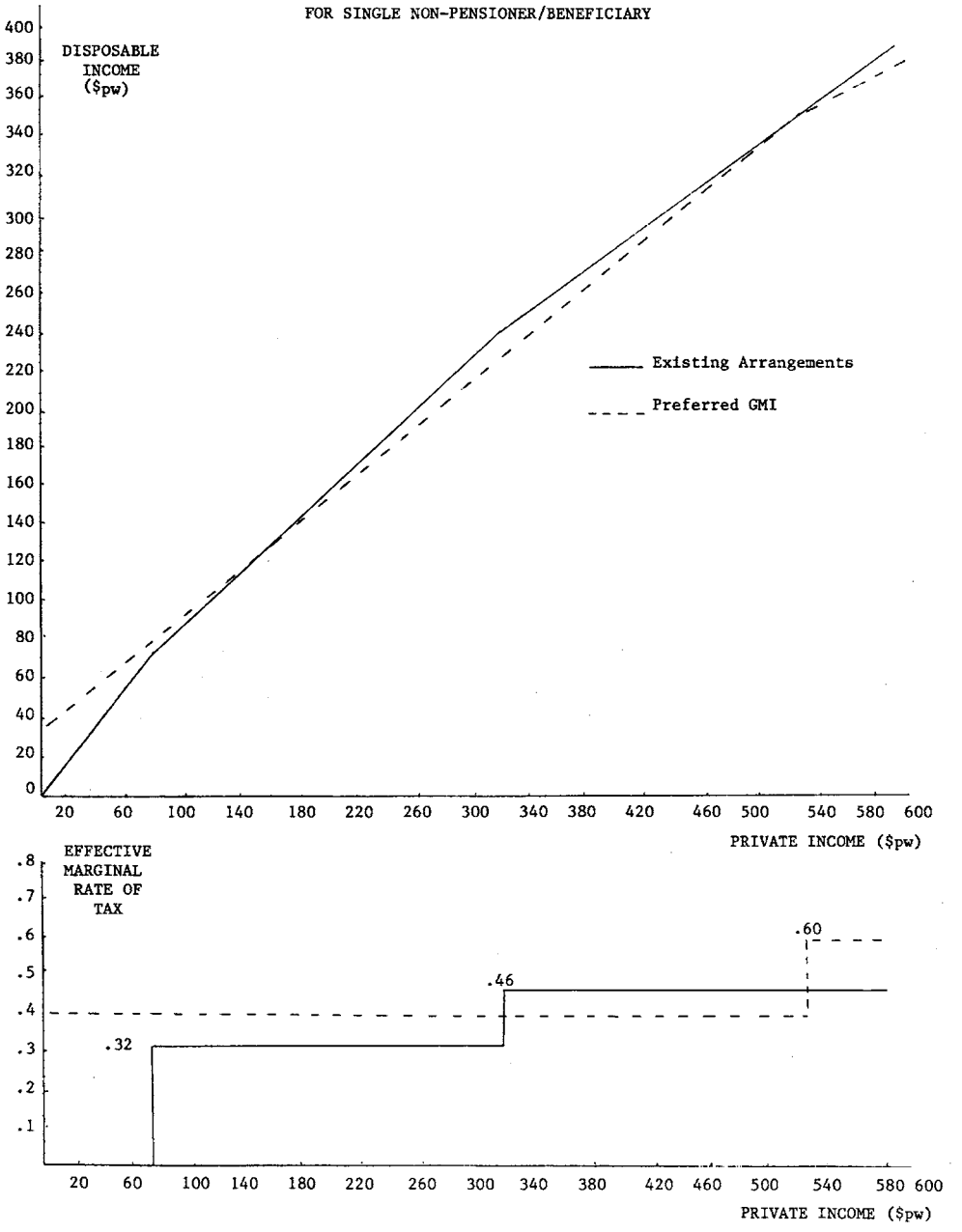


Table III.7

DIFFERENCE IN DISPOSABLE INCOMES BETWEEN CURRENT SYSTEM AND HENDERSON GUARANTEED INCOME SCHEME FOR SINGLE NON-PENSIONER/BENEFICIARY

Private Income	Disposable Income under Current System	Disposable Income under Guaranteed Income Proposal	Difference	
$p.w.	$p.w.	$p.w.	$p.w.	%
0	0.00	36.65	+36.65	n.a.
20	20.00	48.65	+28.65	+143.2
40	40.00	60.65	+20.65	+ 51.6
60	60.00	72.65	+12.65	+ 21.1
80	78.35	84.65	+ 6.29	+ 8.0
100	91.96	96.65	+ 4.69	+ 5.1
120	105.56	108.65	+ 3.09	+ 2.9
129.50 (Min. Wage)	112.02	114.35	+ 2.33	+ 2.1
140	119.16	120.65	+ 1.49	+ 1.3
160	132.76	132.65	- 0.11	- 0.1
180	146.36	144.65	- 1.71	- 1.2
200	159.96	156.65	- 3.31	- 2.1
220	173.56	168.65	- 4.91	- 2.8
240	187.16	180.65	- 6.51	- 3.5
260	200.76	192.65	- 8.11	- 4.0
280	214.36	204.65	- 9.71	- 4.5
300	227.96	216.65	-11.31	- 5.0
400	284.67	276.65	- 8.02	- 2.8
500	338.67	336.65	- 2.02	- 0.6
600	392.67	382.05	-10.62	- 2.7

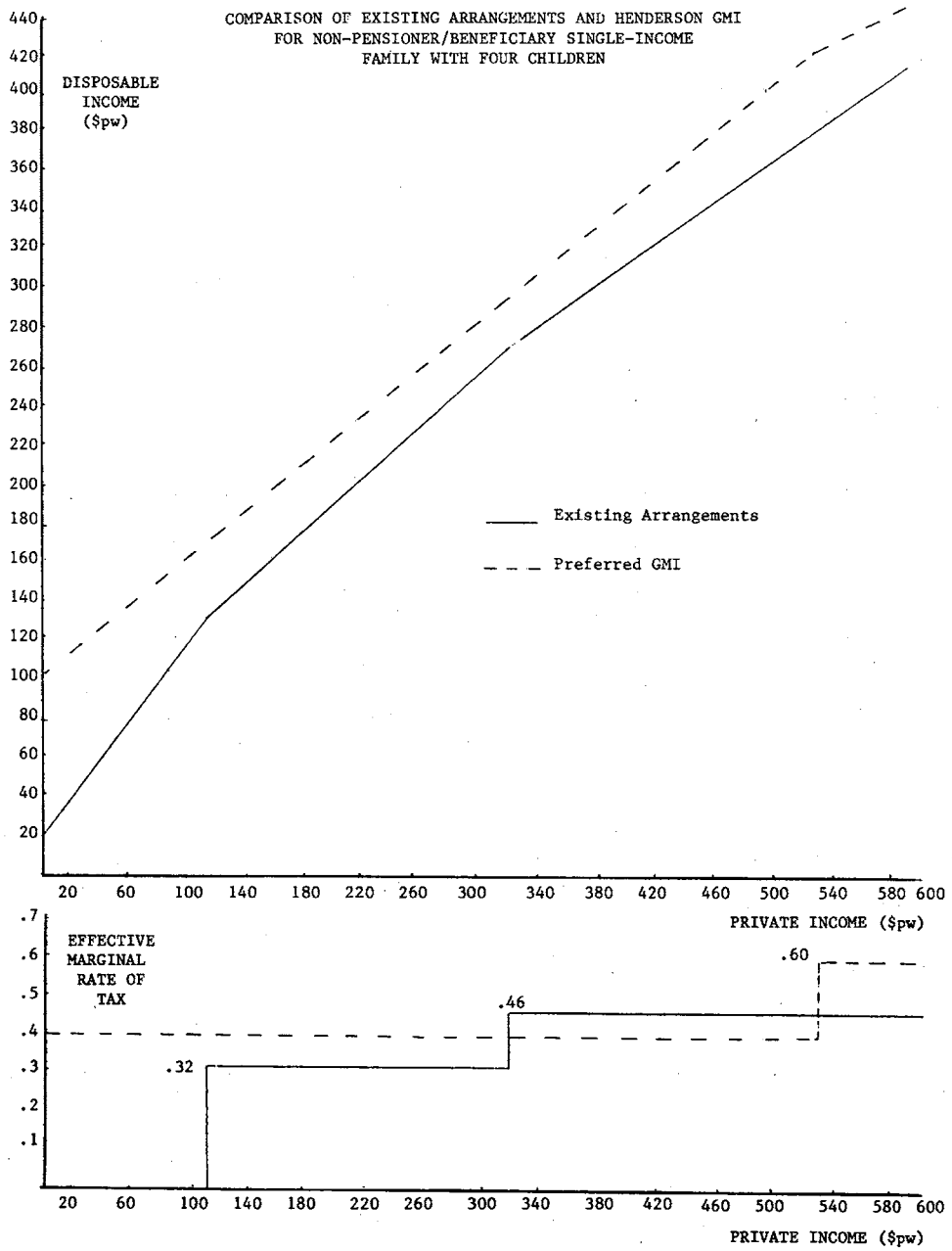
ranges, essentially because of the higher standard rate of tax under the proposal. (Under the proposed scheme, and under existing arrangements, families with children are better off than single people and couples without children at every level of income. The difference, however, is far greater under the proposed scheme and generally exceeds the losses under the scheme for a single person or a couple without children at lower income levels.) As mentioned above for a single person and a single-income couple, the comparison of current arrangements and the proposed scheme at higher income levels is complicated by the different thresholds for tax surcharges. Many families on very high incomes would benefit under the proposal. In fact, single-income, two-parent families with two or more children would benefit at all levels of income. Figure III.9 compares disposable incomes and effective marginal tax rates for a single-income family with four children.

Pensioners

Comparing the guaranteed income scheme with current arrangements for pensioners is made more difficult by the fact that, currently, some pensions are taxed and some are not and some pensions are fully income-tested, some are partly income-tested, and some are not income-tested at all.

For a *single person* who fits into a pensioner category, the proposal provides a more generous minimum income than the existing pension. But tax at the rate of 40 cents in the dollar would be payable from the first dollar of private income. Even where currently the pension is both taxed and income-tested, there is no effective claw-back until private income reaches about $17 a week. Accordingly, some single pensioners with small amounts of private income would do better under current arrangements. Whether or not a pensioner

Figure III.9


COMPARISON OF EXISTING ARRANGEMENTS AND HENDERSON GMI
FOR NON-PENSIONER/BENEFICIARY SINGLE-INCOME
FAMILY WITH FOUR CHILDREN
DISPOSABLE INCOME ($pw)
440
420
400
380
360
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
Existing Arrangements
Preferred GMI
20 60 100 140 180 220 260 300 340 380 420 460 500 540 580 600
PRIVATE INCOME ($pw)
EFFECTIVE MARGINAL RATE OF TAX
.7
.6
.5
.4
.3
.2
.1
.60
.46
.32
20 60 100 140 180 220 260 300 340 380 420 460 500 540 580 600
PRIVATE INCOME ($pw)

with more substantial amounts of private income would be better off under the proposal than at present depends on whether the pension is currently taxed or income-tested. Broadly, he would do better under the proposal if his pension is currently fully income-tested, whether or not it is taxed (e.g. those under 70 years of age, including invalid pensioners); but he would be better off under present arrangements if he were over 70 or blind (where most or all of the pension is income-test-free). This broad description is not entirely accurate: for private incomes below $12 a week and between $26 and $60 a week even a pensioner aged 70 and over who is currently entitled to an income-test-free pension would be better off under the proposal i.e. current arrangements for the over 70's come closest to the proposed scheme. Figure III.10 compares disposable incomes and effective marginal tax rates for single people in age pensioner categories.

Married pensioner couples with no private income would be better off under the proposal compared with current arrangements. Under a strict interpretation of the proposal as described in Volume 1 of the First Main Report of the Poverty Inquiry, married pensioner couples with no private income would be worse off. This is because the Henderson poverty line for a married couple is less than the combined married rate of pension. But the proposal as described in Volume 2, which is the one used in this paper, provides more generous treatment of married couples than the Henderson poverty line might suggest. Those who would not benefit under the proposal include:

- couples under 70 years with modest levels of private income - between $15 and $55 a week ($15 and $95 a week for invalid pensioners); and

- couples aged 70 years and over whose private income is over about $15 a week.

Figure III.11 illustrates the effects of the proposal for married age pensioner couples.

Sole parents would generally benefit by the proposal: the Henderson 'poverty line' is significantly higher than current rates of assistance. In addition, sole parent pensions are currently income-tested and the basic pensions are subject to tax. The effects for a sole parent with two children (one under six years) are illustrated in Figure III.12.

Most *married pensioners with children* are invalid pensioners whose pensions are income-tested but not taxed. The maximum rates of pension are below the minimum guaranteed income under the proposal. But the income-test-free areas are such that those with one or two children and modest levels of private income are likely to be better off under current arrangements. Because currently the pensions for married people with children are generally income-tested (though not taxed), those with higher incomes or greater numbers of children would generally be better off under the proposal. These effects for an invalid pensioner with two children are illustrated in Figure III.13.

Beneficiaries

The proposal entails a more stringent income test for beneficiaries along the same lines as currently applies (December 1979). There would be no free areas. Private income up to the then prevailing free areas would be subject to a 40 per cent tax rate; any income above these amounts would be subject to a 100 per cent withdrawal rate as applies now. While the Poverty Inquiry suggests that the needs of the unemployed should be compared with the 'poverty line' for 'at work' income units, the minimum income guarantee is based on the 'at home' 'poverty line', in the same way as for pensioners. Essentially:

Figure III.10

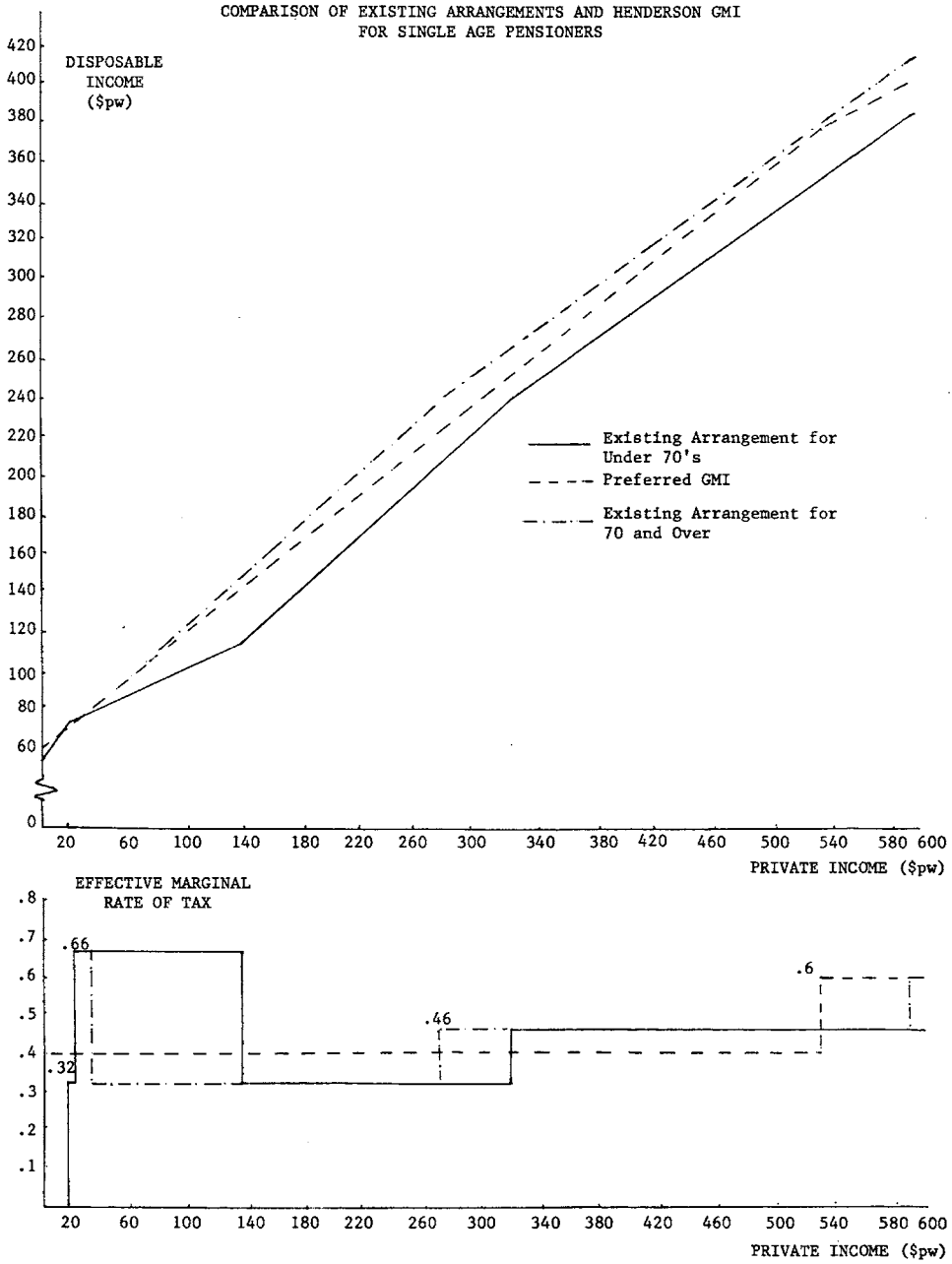


Figure III.11

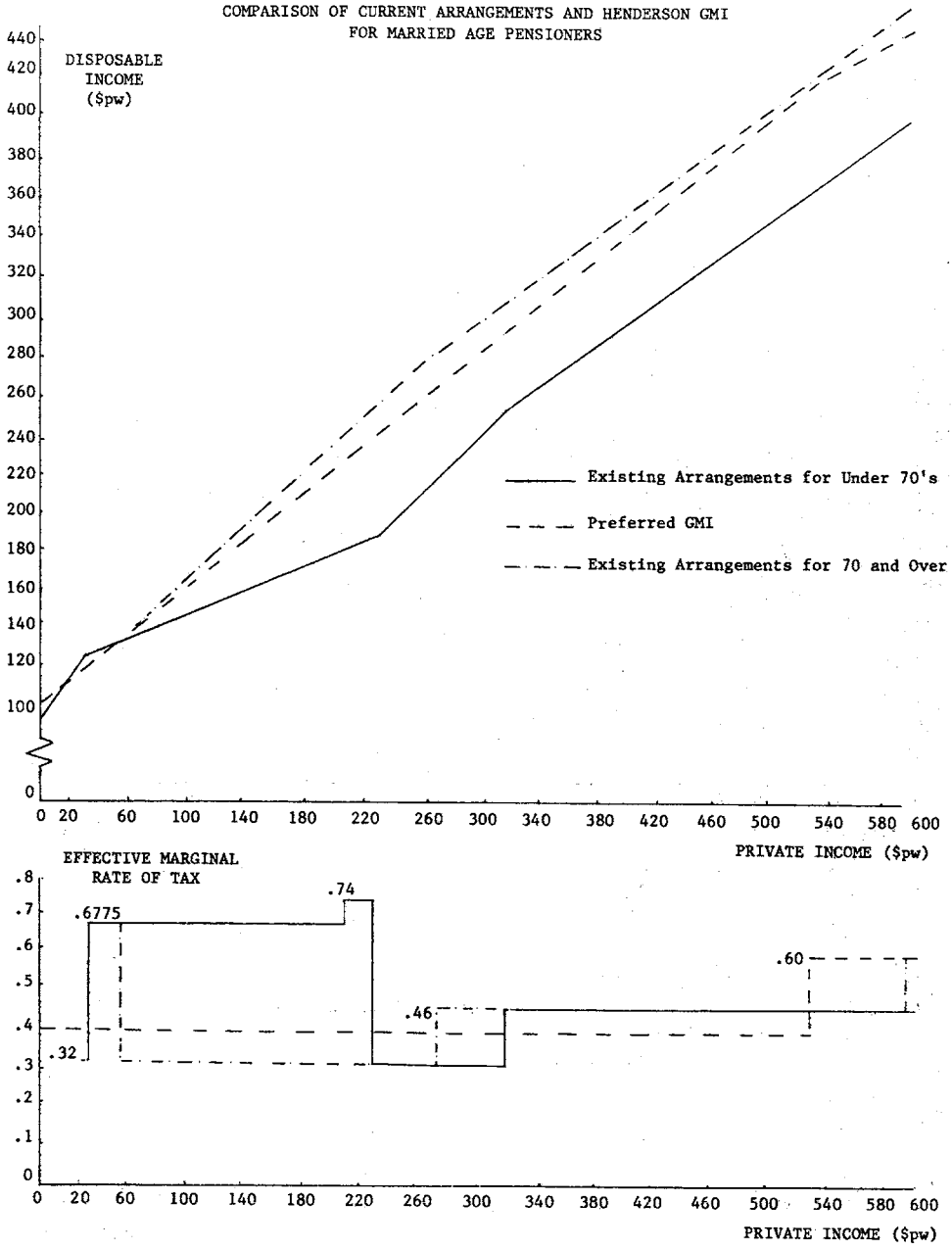


Figure III.12

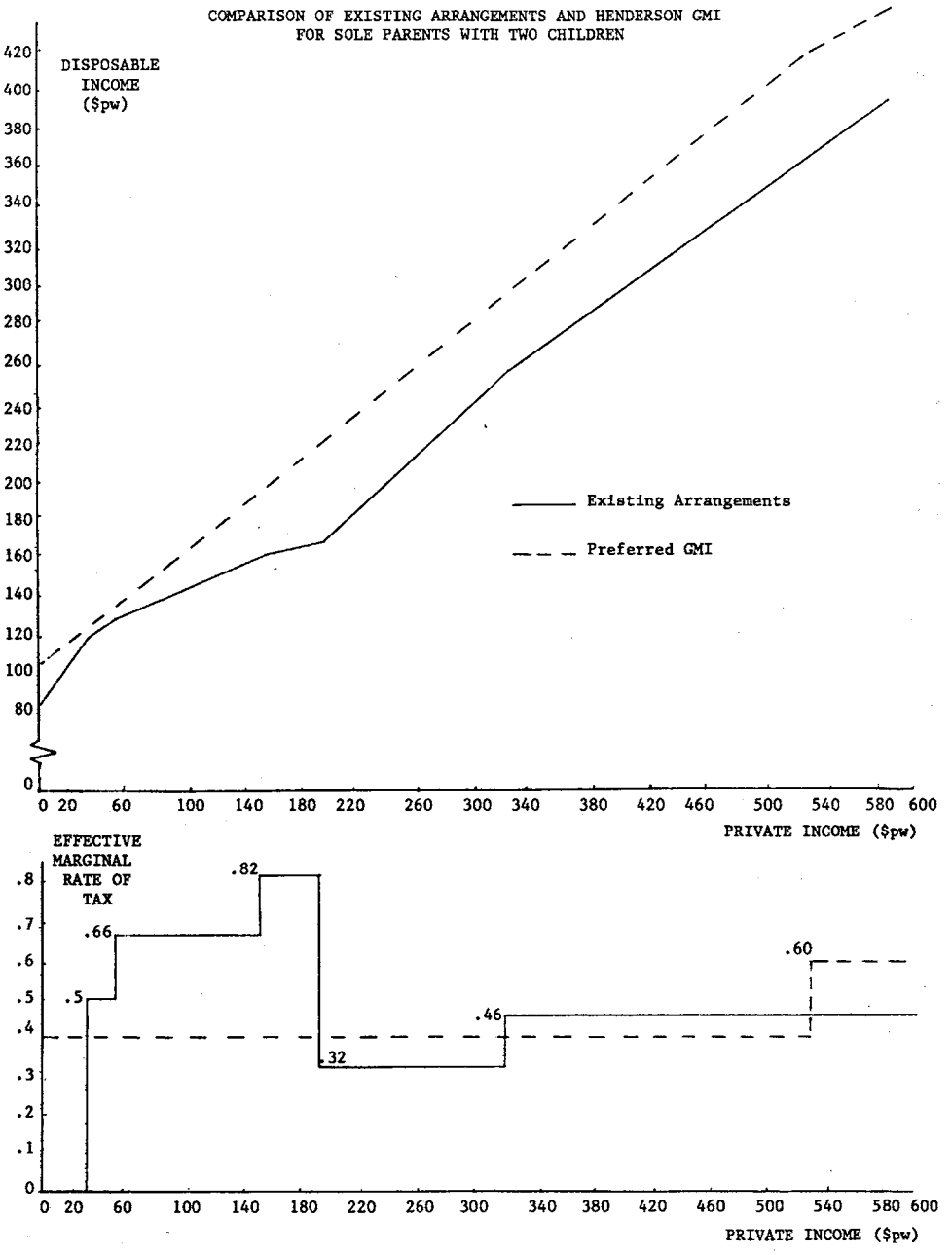
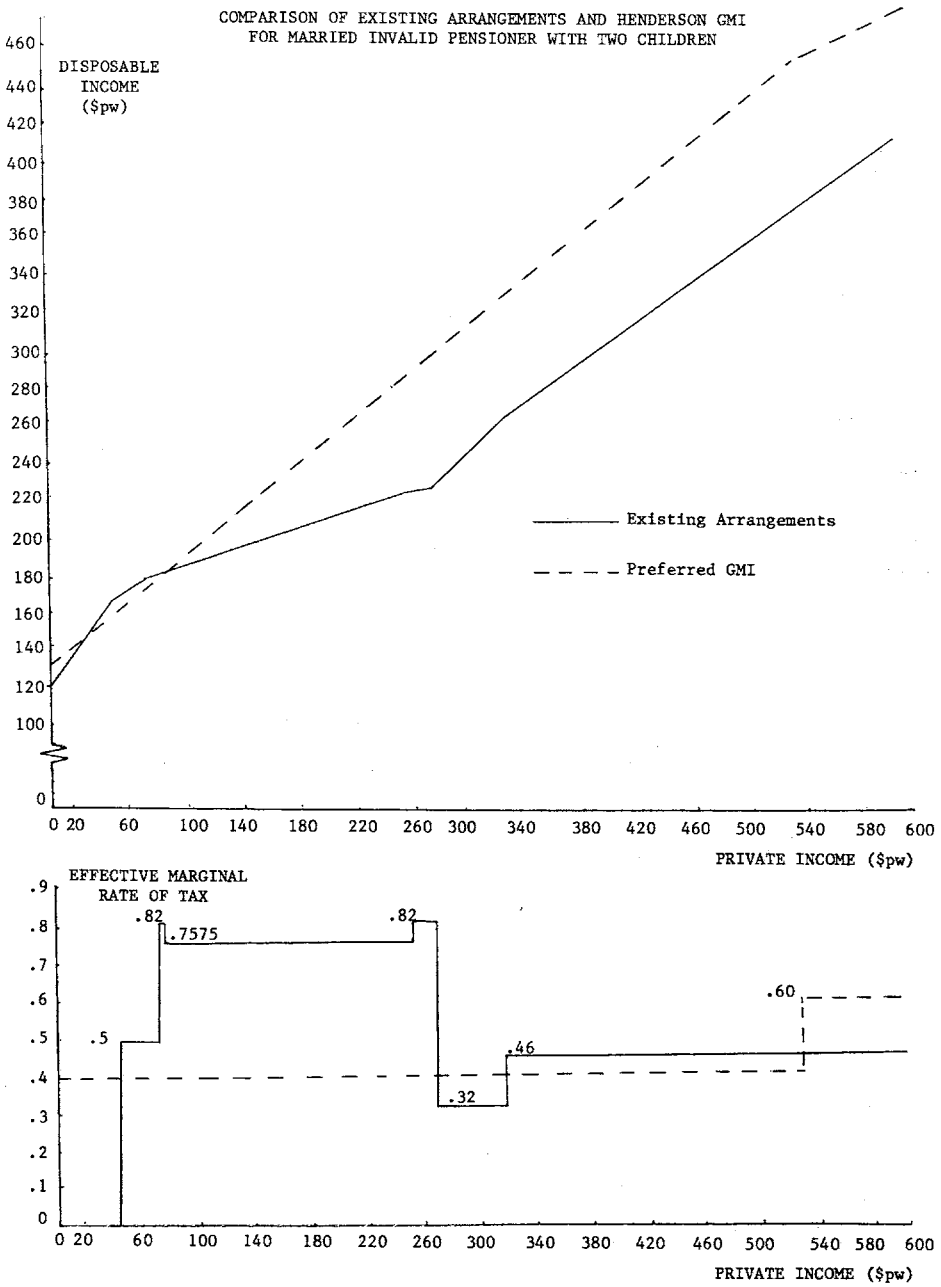


Figure III.13



- single unemployed and sick people under 18 would be substantially better off under the proposal (though the Poverty Inquiry did not clarify fully its proposals for young people);

- unemployed people over 18 without dependants would be significantly better off under the proposal;

- childless married couples on benefits would be marginally better off; and

- beneficiaries with children would be substantially better off under the proposal.

Detailed figures are included in Attachment C.

Summary

The Poverty Inquiry proposal involves a change to the levels of assistance for people in pensioner/beneficiary categories, a guaranteed income for non-pensioner/beneficiaries and a standardized tax/withdrawal rate. The last element of the proposal would smooth existing effective marginal tax rates - some would increase and others would decrease. Accordingly, despite some common assumptions to the contrary, the proposal does not uniformly direct assistance to those on low incomes.

As compared to current arrangements, the Poverty Inquiry preferred proposal for integrating social security and personal income tax would entail:

- for those who do not fall into pensioner or beneficiary categories:
  - a generally higher standard tax rate, but tax surcharges applying to a smaller proportion of taxpayers;
  - a minimum income guarantee, with a tax threshold slightly higher than that currently applying; and
  - a far more generous universal (and tax-free) system of assistance for dependants, particularly dependent children;

- for those falling into pensioner categories:
  - a minimum income guarantee which is more generous than current pension levels. The difference is particularly significant for sole parents and for large two-parent families; and
  - an effective withdrawal rate closer to that applying to taxable income-test-free pensions than to any existing income-tested pension, but without any 'free area'.

A similar result could be obtained under the current separate tax and social security systems by the following measures:

- an increase in the standard rate of tax with an increase in the tax threshold;

- a large increase in family allowances;

- an increase in rates of pension and benefit, particularly for those with children; and

- abolition of the income test for all pensions (including supporting parent benefits) and the taxing of all basic pension payments.

In addition, a small increase in the spouse rebate would be required and a large increase in the tax surcharge (but with only the one tax surcharge with a maximum marginal tax rate of 60 per cent).

If this were done, the only remaining major difference would be for those not fitting into pensioner and beneficiary categories whose incomes were below, say, the minimum wage.

The above is based on a comparison of current arrangements with the preferred proposal of the Poverty Inquiry. To provide a similar redistribution to that achieved under the Poverty Inquiry's minimal scheme, less emphasis would need to be given to increasing rates of pensions and benefits and to increasing the standard rate of tax and more emphasis would need to be given to the abolition of pension income tests.

III.6 CONCLUDING REMARKS

This chapter is essentially designed as a background technical document - more by way of a description than an analysis of the relationship between the social security and personal income tax systems. It is complementary to our chapter in R. Mendelsohn (ed), *Australian Social Welfare Finance*, George Allen & Unwin, Sydney (forthcoming).

It has attempted to show how the social security and personal income tax systems interact and to show that there are often several ways in which the two systems may be varied to achieve a given nominal income distribution. An important implication is that a given distribution may be achieved with different mixes of social security outlays and taxation revenues and with different numbers of social security recipients. For example, a given distribution could be achieved with greater or less tax along with greater or less social security, with high or low marginal tax rates along with liberal or stringent income tests, with taxable pensions and a high tax threshold or with non-taxable pensions and no tax threshold. Accordingly, care must be taken in any analysis of taxation or social security based only on changes in outlays, in revenues or in numbers involved.

The chapter also highlights the vertical and horizontal equity aspects of income distribution and the possible conflicts involved. These include the question of the balance that must be struck between concentrating assistance on those in need and encouraging self-help.

The chapter ends with a comparison of existing arrangements with a proposal for full integration of the two systems. It can be a worthwhile exercise to develop an ideal picture of a desirable overall distribution to be effected by the social security and personal income tax systems. The Poverty Inquiry's preferred guaranteed minimum income scheme proposal may be regarded as an example of this. It is interesting, however, that a detailed comparison between such an ideal system and the existing system might result in rather different conclusions about appropriate reforms than might result from an examination of the existing system only. For example, to move towards the Poverty Inquiry's ideal would require not only increases in certain maximum pension and benefit payments for 'the poor', but also the removal of certain income tests and a substantial increase in universal family allowances - measures that would benefit many who are not 'poor'.

This is not necessarily so surprising. The development of an ideal scheme requires an open consideration of competing objectives which a more limited examination of existing arrangements might not. A major purpose of the chapter has been to emphasize some of the conflicts that need to be resolved, including the conflict between the desire to concentrate assistance on those in need and the desire to encourage people to provide for themselves, and the possible conflict that may arise between horizontal and vertical equity considerations.

Table III.8

TAXATION TREATMENT OF SOCIAL SECURITY PENSIONS, BENEFITS AND RELATED PAYMENTS

	Current Treatment
	Taxable
Basic Pension Payments	
Age Pension	Yes
Invalid Pension (including wife's pension)	
- if recipient below age pension age	No
- if recipient of age pension age	Yes
Widow's Pension	Yes
Supporting Parent's Benefit	Yes
Sheltered Employment Allowance	No
Repatriation Service Pension on account of age (including wife's pension)	Yes
Repatriation Service Pension on account of pulmonary tuberculosis or permanent unemployability	
- if recipient below age pension age	No
- if recipient of age pension age	Yes *
Repatriation Parents Pension	Yes
Tuberculosis Allowances (including wife's pension)	
- if recipient below age pension age	No
- if recipient of age pension age	Yes
Additional Pension Payments	
Additional Pension for Children**	No
Mothers'/Guardians' Allowance	No
Supplementary Assistance	No
Incentive Allowance (sheltered employment)	No
Tuberculosis Housekeeper Allowance	No
Basic Benefit Payments	
Unemployment, Sickness and Special Benefit	Yes
Additional Benefit for Spouse	Yes
Additional Benefit Payments	
Additional Benefit for Children	Yes
Supplementary Allowance	Yes
Rehabilitation	
Training Allowance	***
Living-away-from-home Allowance	No
Incentive Allowance (rehabilitation)	No

* Assessable income to the extent that it represents an alternative to a widow's pension or, in other cases, if the parent is of age pension age. In effect the only part exempt is a "disability" type payment.

** Including additional benefit for children of supporting parent beneficiaries.

*** Training allowance paid to former unemployment, sickness or special beneficiaries is subject to tax but that payable to former invalid pensioners is not subject to tax.

VALUE OF ASSISTANCE FOR VARIOUS PENSIONERS AND BENEFICIARIES, 1954 TO 1980

Table III.9

VALUE OF ASSISTANCE FOR SINGLE PENSIONERS*, 1954 TO 1980

YEAR (as at December)	NO CHILDREN			3 CHILDREN **		
	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %
1954	7.00	26.87	20.4	10.65	40.89	31.0
1955	8.00	29.52	21.8	11.65	42.98	31.7
1956	8.00	27.89	20.6	13.65	47.58	35.2
1957	8.75	30.21	21.8	14.40	49.71	35.9
1958	8.75	29.74	21.1	14.40	48.94	34.7
1959	9.50	31.49	21.8	15.15	50.22	34.7
1960	10.00	31.85	21.5	15.65	49.84	33.6
1961	10.50	33.29	22.1	16.50	52.32	34.7
1962	10.50	33.22	21.6	16.50	52.20	33.9
1963	11.50	36.06	22.2	18.50	58.01	35.7
1964	12.00	36.27	21.7	19.50	58.94	35.3
1965	12.00	35.00	20.8	23.50	68.55	40.8
1966	13.00	36.93	21.2	24.50	69.60	40.0
1967	13.00	35.75	20.0	24.50	67.38	37.8
1968	14.00	37.52	20.1	28.50	76.39	40.8
1969	15.00	38.95	20.0	33.50	87.00	44.6
1970	15.50	38.43	18.8	34.00	84.29	41.2
1971	17.25	40.04	18.8	40.25	93.42	43.8
1972	21.50	47.06	21.4	44.50	97.40	44.3
1973	23.00	44.57	20.0	47.50	92.05	41.2
1974	31.00	51.47	21.0	57.00	94.64	38.6
1975	38.75	56.95	23.1	70.75	103.98	42.3
1976	43.50	56.17	23.2	87.00	112.35	46.3
1977	49.30	58.12	23.8	93.30	109.99	45.1
1978	53.20	57.98	24.0	96.20	104.83	43.3
1979	57.90	57.90	23.8	100.90	100.90	41.4
1980	64.10	57.96	23.5***	116.60	105.42	42.7***

* No account has been taken of Supplementary Assistance for renters.
** Assumes at least one child under 6 or invalid. Includes Child Endowment/Family Allowances.
*** Based on an estimated seasonally adjusted AWE of $273.00 for December 1980.

Table III.10

VALUE OF ASSISTANCE FOR MARRIED PENSIONER COUPLE*, 1954 TO 1980

YEAR (as at December)	NO CHILDREN			3 CHILDREN **		
	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %
1954	14.00	53.75	40.8	17.65	67.76	51.5
1955	16.00	59.03	43.6	19.65	72.50	53.5
1956	16.00	55.77	41.2	21.65	75.47	55.8
1957	17.50	60.41	43.6	23.15	79.91	57.7
1958	17.50	59.47	42.2	23.15	78.67	55.8
1959	19.00	62.99	43.6	24.65	81.72	56.5
1960	20.00	63.70	42.9	25.65	81.69	55.0
1961	21.00	66.59	44.2	27.00	85.61	56.8
1962	21.00	66.44	43.1	27.00	85.42	55.4
1963	21.00	65.85	40.5	28.00	87.80	54.1
1964	22.00	66.49	39.9	29.50	89.16	53.4
1965	22.00	64.17	38.2	29.50	86.05	51.2
1966	23.50	66.76	38.3	31.00	88.07	50.6
1967	23.50	64.63	36.2	31.00	85.26	47.8
1968	25.00	67.00	35.8	35.50	95.15	50.9
1969	26.50	68.82	35.3	39.00	101.28	51.9
1970	27.50	68.17	33.3	40.00	99.16	48.5
1971	30.50	70.79	33.2	47.50	110.25	51.6
1972	37.50	82.08	37.4	54.50	119.29	54.3
1973	40.50	78.49	35.2	58.50	113.37	50.8
1974	51.50	85.51	34.8	71.50	118.72	48.4
1975	64.50	94.80	38.5	90.50	133.01	54.1
1976	72.50	93.62	38.6	109.50	141.40	58.3
1977	82.20	96.90	39.7	119.20	140.52	57.6
1978	88.70	96.66	40.0	125.70	136.98	56.6
1979	96.50	96.50	39.6	133.50	133.50	54.8
1980	106.80	96.56	39.1 ***	151.30	136.80	55.4***

* No account has been taken of Supplementary Assistance for renters.

** Includes Child Endowment/Family Allowances.

*** Based on an estimated seasonally adjusted AWE of $273.00 for December 1980.

Table III.11

VALUE OF ASSISTANCE FOR SINGLE UNEMPLOYMENT AND SICKNESS BENEFICIARIES AGED 16-17, 1954 TO 1980

YEAR (as at December)	MONEY VALUE ($pw)	REAL VALUE (DEC 1979) PRICES) ($pw)	PROPORTION OF AWE %
1954	3.00	11.52	8.7
1955	3.00	11.07	8.2
1956	3.00	10.46	7.7
1957	3.50	12.08	8.7
1958	3.50	11.89	8.4
1959	3.50	11.60	8.0
1960	3.50	11.15	7.5
1961	3.50	11.10	7.4
1962	3.50	11.07	7.2
1963	3.50	10.98	6.8
1964	3.50	10.58	6.3
1965	3.50	10.21	6.1
1966	3.50	9.94	5.7
1967	3.50	9.63	5.4
1968	3.50	9.38	5.0
1969	4.50	11.69	6.0
1970	4.50	11.16	5.5
1971	4.50	10.44	4.9
1972	7.50	16.42	7.5
1973	23.00	44.57	20.0
1974	31.00	51.47	21.0
1975	36.00	52.91	21.5
1976	36.00	46.49	19.2
1977	36.00	42.44	17.4
1978	36.00	39.23	16.2
1979	36.00	36.00	14.8
1980	36.00	32.55	13.2 *

* Based on an estimated seasonally adjusted AWE of $273.00 for Dec 1980.

Table III.12

VALUE OF ASSISTANCE FOR SINGLE UNEMPLOYMENT AND SICKNESS BENEFICIARIES AGED 18-20, 1954 TO 1980

YEAR (as at December)	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %
1954	4.00	15.36	11.7
1955	4.00	14.76	10.9
1956	4.00	13.94	10.3
1957	4.75	16.40	11.8
1958	4.75	16.14	11.4
1959	4.75	15.75	10.9
1960	4.75	15.13	10.2
1961	4.75	15.06	10.0
1962	4.75	15.03	9.8
1963	4.75	14.89	9.2
1964	4.75	14.36	8.6
1965	4.75	13.85	8.2
1966	4.75	13.49	7.7
1967	4.75	13.06	7.3
1968	4.75	12.73	6.8
1969	6.00	15.58	8.0
1970	6.00	14.87	7.3
1971	6.00	13.93	6.5
1972	11.00	24.08	11.0
1973	23.00	44.57	20.0
1974	31.00	51.47	21.0
1975	38.75	56.95	23.1
1976	43.50	56.17	23.2
1977	49.30	58.12	23.8
1978	53.20(51.45*)	57.98(56.07*)	24.0(23.2*)
1979	57.90(51.45*)	57.90(51.45*)	23.8(21.1*)
1980	64.10(53.45*)	57.96(48.33*)	23.5(19.6*) **

* The rate for unemployment beneficiaries but not sickness beneficiaries without dependants was removed from the scope of indexation in 1978.

** Based on an estimated seasonally adjusted AWE of $273.00 for December 1980.

Table III.13

VALUE OF ASSISTANCE FOR SINGLE UNEMPLOYMENT AND SICKNESS BENEFICIARIES OVER 21, 1954 TO 1980

YEAR (as at December)	MONEY VALUE ($pw)	REAL VALUE (DEC 1979) PRICES) ($pw)	PROPORTION OF AWE %
1954	5.00	19.20	14.6
1955	5.00	18.45	13.6
1956	5.00	17.43	12.9
1957	6.50	22.44	16.2
1958	6.50	22.09	15.7
1959	6.50	21.55	14.9
1960	6.50	20.70	13.9
1961	7.50	23.78	15.8
1962	8.25	26.10	16.9
1963	8.25	25.87	15.9
1964	8.25	24.93	14.9
1965	8.25	24.06	14.3
1966	8.25	23.44	13.5
1967	8.25	22.69	12.7
1968	8.25	22.11	11.8
1969	10.00	25.97	13.3
1970	10.00	24.79	12.1
1971	10.00	23.21	10.9
1972	17.00	37.21	16.9
1973	23.00	44.57	20.0
1974	31.00	51.47	21.0
1975	38.75	56.95	23.1
1976	43.50	56.17	23.2
1977	49.30	58.12	23.8
1978	53.20(51.45*)	57.98(56.07*)	24.0(23.2*)
1979	57.90(51.45*)	57.90(51.45*)	23.8(21.1*)
1980	64.10(53.45*)	57.96(48.33*)	23.5(19.6*)**

* The rate for unemployment beneficiaries but not sickness beneficiaries without dependants was removed from the scope of indexation in 1978.

** Based on an estimated seasonally adjusted AWE of $273.00 for December 1980.

Table III.14

VALUE OF ASSISTANCE TO MARRIED UNEMPLOYMENT AND SICKNESS BENEFICIARIES, 1954 TO 1980

YEAR (as at December)	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %
1954	9.00	34.55	26.2
1955	9.00	33.21	24.5
1956	9.00	31.37	23.2
1957	11.25	38.84	28.1
1958	11.25	38.23	27.1
1959	11.25	37.29	25.8
1960	11.25	35.83	24.1
1961	12.75	40.43	26.8
1962	14.25	45.08	29.3
1963	14.25	44.68	27.5
1964	14.25	43.07	25.8
1965	14.25	41.56	24.7
1966	14.25	40.48	23.2
1967	14.25	39.19	22.0
1968	14.25	38.19	20.4
1969	17.00	44.15	22.6
1970	17.00	42.14	20.6
1971	18.00	41.78	19.6
1972	25.00	54.72	24.9
1973	40.50	78.49	35.2
1974	51.50	85.51	34.8
1975	64.50	94.80	38.5
1976	72.50	93.62	38.6
1977	82.20	96.90	39.7
1978	88.70	96.66	40.0
1979	96.50	96.50	39.6
1980	106.80	96.56	39.1*

* Based on an estimated seasonally adjusted AWE of $273.00 for Dec 1980.

Table III.15

VALUE OF ASSISTANCE* TO A MARRIED COUPLE WITH THREE CHILDREN RECEIVING UNEMPLOYMENT OR SICKNESS BENEFITS, 1954 TO 1980

YEAR (as at December)	MONEY VALUE ($pw)	REAL VALUE (DEC 1979 PRICES) ($pw)	PROPORTION OF AWE %
1954	12.00	46.07	35.0
1955	12.00	44.28	32.7
1956	12.00	41.83	30.9
1957	14.75	50.92	36.8
1958	14.75	50.13	35.5
1959	14.75	48.90	33.8
1960	14.75	46.98	31.7
1961	16.50	52.32	34.7
1962	21.25	67.23	43.6
1963	21.25	66.63	41.0
1964	21.75	65.74	39.4
1965	21.75	63.44	37.8
1966	21.75	61.79	35.5
1967	21.75	59.82	33.5
1968	21.75	58.29	31.2
1969	29.50	76.61	39.3
1970	29.50	73.13	35.8
1971	35.00	81.24	38.0
1972	42.00	91.93	41.8
1973	59.00	114.34	51.2
1974	71.50	118.72	48.4
1975	90.50	133.01	54.1
1976	109.50	141.40	58.3
1977	119.20	140.52	57.6
1978	125.70	136.98	56.6
1979	133.50	133.50	54.8
1980	151.30	136.80	55.4**

* Includes Child Endowment/Family Allowances.
** Based on an estimated seasonally adjusted AWE of $273.00 for December 1980.

CALCULATION OF EFFECTS OF INTERACTION OF PERSONAL INCOME TAX AND SOCIAL SECURITY SYSTEMS

For the purposes of illustrating the effects on disposable incomes and effective marginal tax rates of the interaction of the personal income tax and social security systems, the weekly equivalent of the two systems operating in December 1979 has been used.

The *personal income tax system* used is as follows:

Total Taxable Income

Not less than	Not more than	Tax on Total Taxable Income
$ per week	$ per week	
1	74.87 ($3,893 per year)	Nil
74.87	319.38 ($16,608 per year)	Nil + 32c for each $1 in excess of $74.87
319.38	638.77 ($33,216 per year)	$78.25 + 46c for each $1 in excess of $319.38
638.77	and over	$225.17 + 60c for each $1 in excess of $638.77

Sole parent taxpayers and taxpayers with dependent spouses may be eligible for tax rebates as follows:

sole parent tax rebate $8.02 per week ($417 per year)
dependent spouse tax rebate $11.48 per week ($597 per year)

The latter rebate is subject to a separate net income test whereby the rebate is reduced by 25 cents for every $1 of the dependent spouse's income in excess of $3.90 per week ($203 per year).

Under the *pension income test*, the maximum rate of pension is reduced by $1 for every $2 of income in excess of $20 per week for a single person, or $34.50 per week for a married couple. A concession from income of $6 per week is allowed for each dependent child.

A. Basic Formulae

The basic formulae for determining the *disposable incomes* (D) for people on varying levels of private income (Y) eligible for income-tested or income-test-free, and taxed or tax-free, pensions are set out below. Effective retention rates may be calculated by differentiating disposable income in the formulae by private income ($\frac{dD}{dY}$) and effective *marginal tax* rates by the difference between unity and the effective retention rate. In the formulae for married couples, it has been assumed that all private income is received by one of the couple only.

(i) Income-test-free, tax-free pensions

The formulae for *single people* eligible for income-test-free, tax-free pensions are:

$$D = + Pm - T$$
$$T = 0.32 (Y-74.87) < \text{zero}$$

where D = disposable income
Y = private taxable income
Pm = maximum rate of pension
T = tax
74.87 = basic tax threshold assuming taxable income does not exceed the tax surcharge threshold ($319.38)

For *married couples*, the formulae are:

$$D = Y + 2Pm - T$$
$$T = 0.32 (Y - 74.87) - R < \text{zero}$$
$$R = 11.48 - 0.25 (Pm - 3.90) < \text{zero}$$

where D = disposable income of couple
Y = private taxable income of head of couple
Pm = maximum rate of pension to each of the couple
R = spouse rebate payable
11.48 = maximum spouse rebate
3.90 = threshold under rebate separate net income test assuming pension paid to each of the married couple, taxable income of head does not exceed $319.38, and pension is included as income for the spouse rebate income test.

(Those with children are considered further below because additional pension for children is almost always income-tested.)

(ii) Income-test-free, taxed pensions

For *single people*, the relevant formulae are:

$$D = Y + Pm - T$$
$$T = 0.32 (Y + Pm - 74.87) < \text{zero}$$

For *married couples*, the relevant formulae are:

$$D = Y + 2 Pm - T$$
$$T = 0.32 (Y + Pm - 74.87) - R < \text{zero}$$
$$R = 11.48 - 0.25 (Pm - 3.90) < \text{zero}$$

(Those with children are considered further below because additional pension for children is almost always income-tested.)

(iii) Income-tested, taxed pensions

For *single people*, the relevant formulae are:

$$D = Y + P - T$$
$$P = Pm - 0.5 (Y - 20) > Pm$$
$$T = 0.32 (Y + P - 74.87) < \text{zero}$$

where P = actual pension payable
20 = income-test-free area

For *married couples*, the relevant formulae are:

$$D = Y + 2P - T$$
$$2P = 2Pm - 0.5 (Y - 34.50) > 2Pm$$
$$T = 0.32 (Y + P - 74.87) - R < \text{zero}$$
$$R = 11.48 - 0.25 (P - 3.90) < \text{zero}$$

(Those with children are considered further below because additional pension for children is not subject to tax.)

(iv) Income-tested, tax-free pensions

For *single people*, the relevant formulae are:

$$D = Y + P - T$$
$$P = Pm - 0.5\ (Y - 20) \text{ > } Pm$$
$$T = 0.32\ (Y - 74.87) \text{ < zero}$$

For *married couples*, the relevant formulae are:

$$D = Y + 2P - T$$
$$2P = 2Pm - 0.5\ (Y - 34.50) \text{ > } 2Pm$$
$$T = 0.32\ (Y - 74.87) - R \text{ < zero}$$
$$R = 11.48 - 0.25\ (P - 3.90) \text{ < zero}$$

People with children who are eligible for income-tested tax-free basic pension may also receive additional pension and mother's/guardians' allowance which are also income-tested and tax-free. Such people include invalid pensioners below age pension age in particular.

For *single people with children*, the formulae are:

$$D = Y + P - T + FA$$
$$P = Pm + AP - 0.5\ (Y - 20 - 6n) \text{ > } Pm + AP$$
$$T = 0.32\ (Y - 74.87) \text{ < zero}$$

where AP = additional pension for children and mothers'/guardians' allowance
FA = family allowance
n = number of children

For *married people with children*, the formulae are:

$$D = Y + Ph + Ps - T + FA$$
$$Ph + Ps = 2Pm + AP - 0.5\ (Y - 34.50 - 6n) \text{ > } 2Pm + AP$$
$$T = 0.32\ (Y - 74.87) - R \text{ < zero}$$
$$R = 11.48 - 0.25\ (Ps - 3.90) \text{ < zero}$$

where Ph = pension actually payable to father, which includes any additional pension payable
Ps = pension paid to the mother

B. Formulae for Mixed Cases

There are many 'mixed cases' where some of the pension only is taxed or income-tested. Some examples of the formulae applying are given below. As before, the formulae for married couples assume all private income is received by one of the couple.

(i) Partially income-tested, taxed pension

Pensioners aged 70 or more are eligible for an income-test-free pension, with an income-tested payment that allows the normal maximum rate of pension to be paid to those with private incomes below the income-test-free areas. Both pension payments are taxed.

The formulae for a *single pensioner* 70 years and over are:

$$D = Y + Po + IP - T$$
$$IP = IPm - 0.5\ (Y - 20) > IPm$$
$$T = 0.32\ (Y + Po + IP - 74.87) < \text{zero}$$

where Po = income-test-free pension
= 51.45
IP = income-tested payment
IPm = maximum income-tested payment (so that Pm = Po + IPm)

The formulae for a *married pensioner couple,* both over 70, are:

$$D = Y + 2Po + 2IP - T$$
$$2IP = 2IPm - 0.5\ (Y - 34.50) > 2IPm$$
$$T = 0.32\ (Y + Po + IP - 74.87) - R < \text{zero}$$
$$R = 11.48 - 0.25\ (Po + IP - 3.90) < \text{zero}$$

where Po = income-test-free pension for each of the couple
= 42.90
IP = income-tested payment for each of the couple
IPm = maximum income-tested payment (so that Pm = Po + IPm)

(ii) Pensioners with children - fully income-tested, partly taxed

Pensioners, other than invalid pensioners considered above, with children receive taxed basic pension with tax-free additional pension for their children (and tax-free mother's/guardian's allowance in the case of sole parent pensioners).

The formulae for the disposable income of such *single pensioners with children* are:

$$D = Y + P - T + FA$$
$$P = Pm + AP - 0.5\ (Y - 20 - 6n) > Pm + AP$$
$$T = 0.32\ (Y + P - AP - 74.87) - SR < \text{zero}$$
(so long as P > AP)

where SR = sole parent rebate
= 8.02

The formulae for such *married pensioners with children* are complicated by special arrangements made by the Taxation Commissioner to reduce the tax payable by those with children. Under these arrangements, the Tax Commissioner assures that the basic taxable pension is withdrawn before the tax-exempt additional pension for children. The Department of Social Security, however, withdraws the additional pension, paid wholly to the father, before withdrawing the basic pensions paid to each of the married couple. The formulae given below identify how to calculate the disposable income of the pensioner families:

$$D = Y + Ph + Ps - T + FA$$
$$Ph + Ps = 2Pm + AP - 0.5\ (Y - 34.50 - 6n) > 2Pm + AP$$
$$T = 0.32\ (Y + K - 74.87) - R < \text{zero}$$
$$R = 11.48 - 0.25\ (Ps - 3.90) < \text{zero}$$
$$K = Pm - 0.25\ (Y - 34.50 - 6n) < \text{zero}$$

where K = taxable pension received by husband.

C. Examples

The chapter presents examples of pensions for single people that are fully taxed or not taxed at all and that are fully income-tested or not income-tested at all. Attached are diagrams illustrating the disposable incomes and effective marginal tax rates for:

Figure III.14: married couples without children eligible for pensions that are:
- income-tested and taxed;
- income-tested and not taxed;
- taxed but not income-tested;

Figure III.15: single people with children eligible for income-tested pensions whose basic rates are taxed and whose additional payments are:
- taxed;
- not taxed;

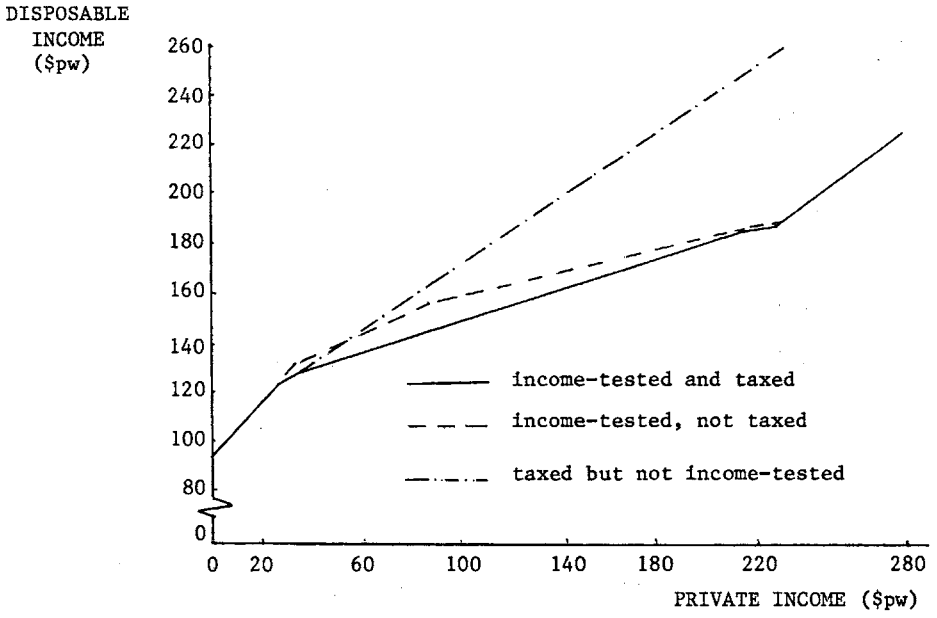
Figure III.16: married couples with children eligible for income-tested pensions whose additional payments are:
- taxed;
- not taxed;

Figure III.17: single aged people under 70 and over 70; and

Figure III.18: married aged couples under 70 and over 70.

Figure III.14

MARRIED PENSIONERS WITHOUT CHILDREN



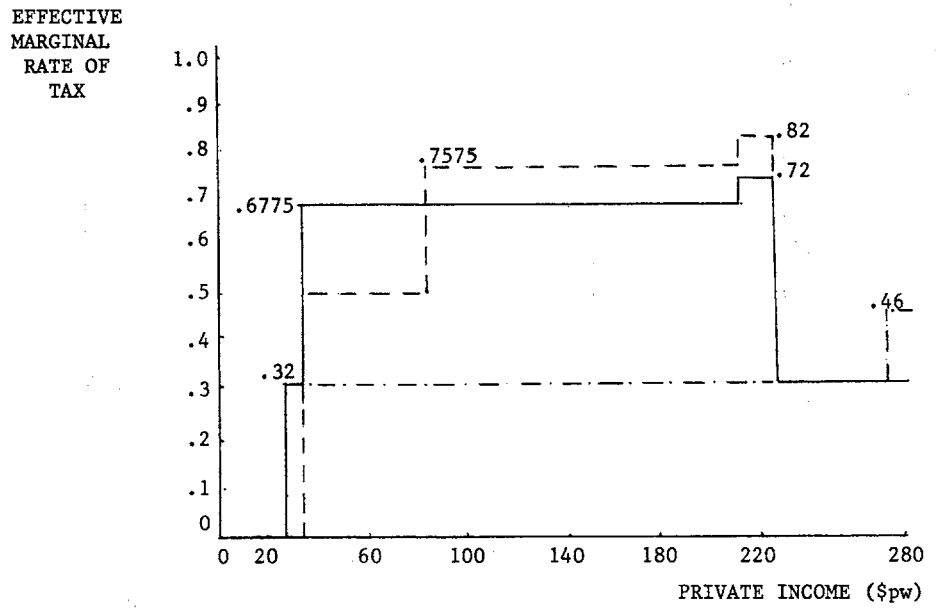
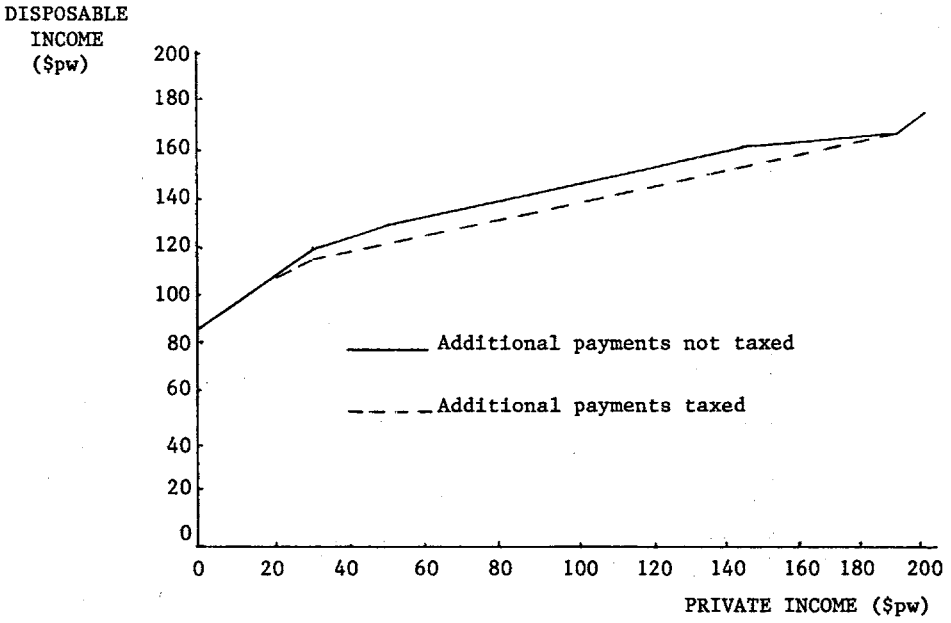


Figure III.15

SINGLE PENSIONERS WITH TWO CHILDREN



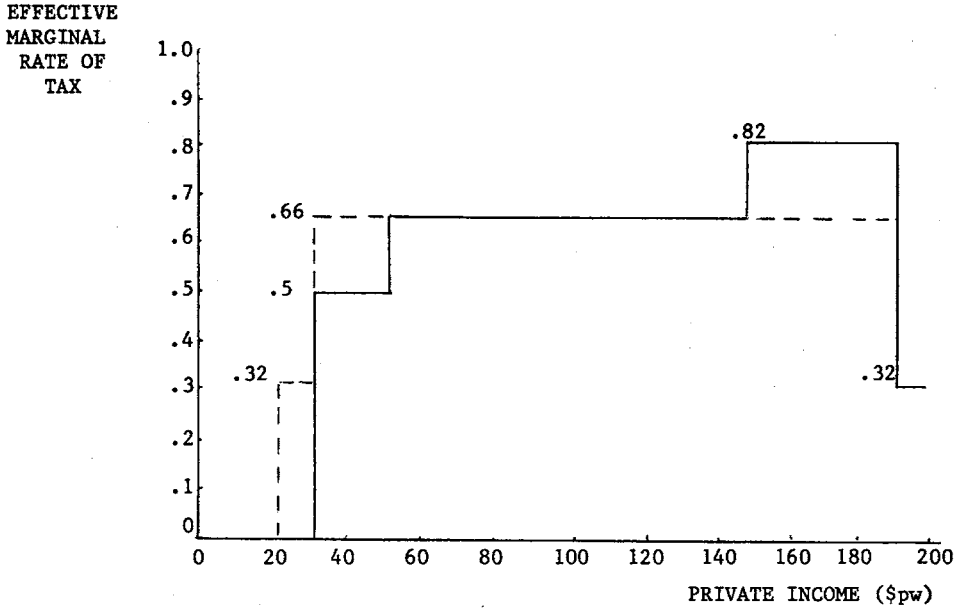
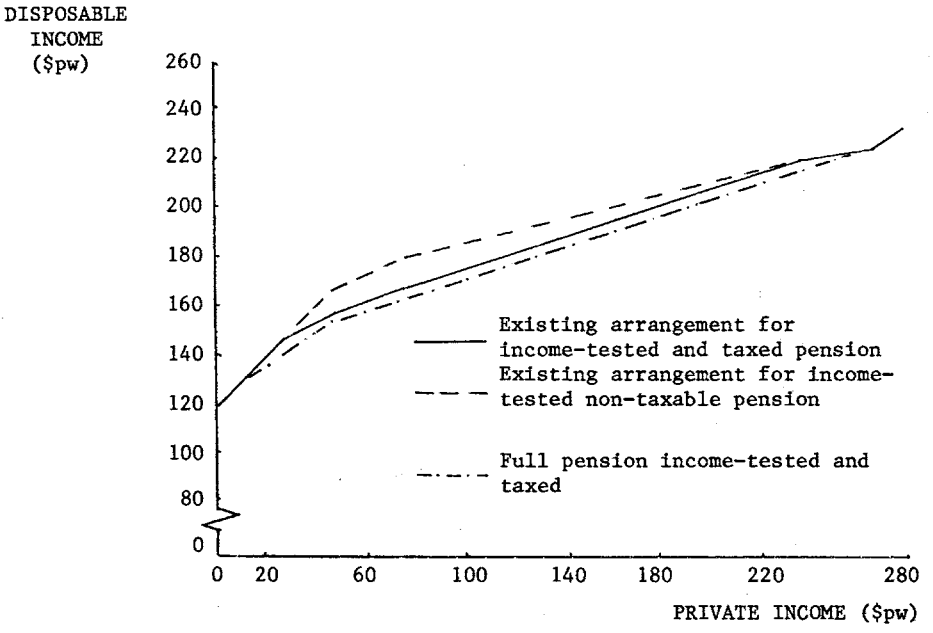
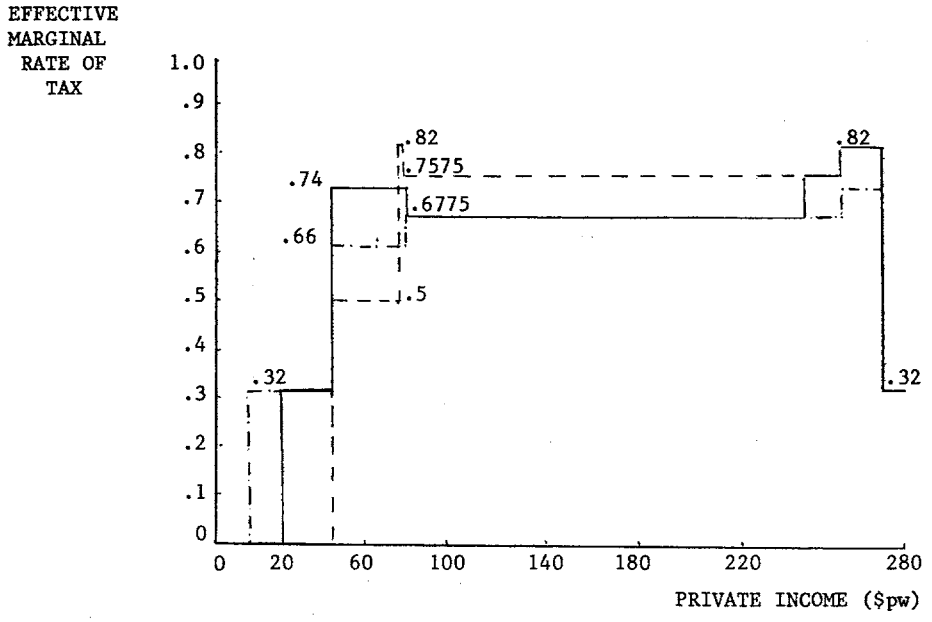


Figure III.16

MARRIED PENSIONERS WITH TWO CHILDREN

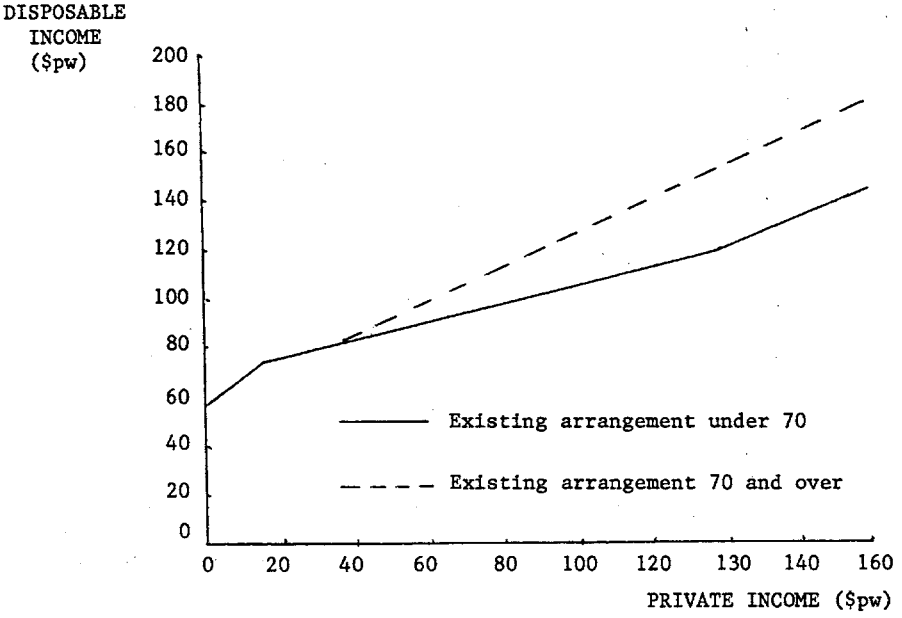




ATTACHMENT B

Figure III.17

SINGLE AGE PENSIONERS



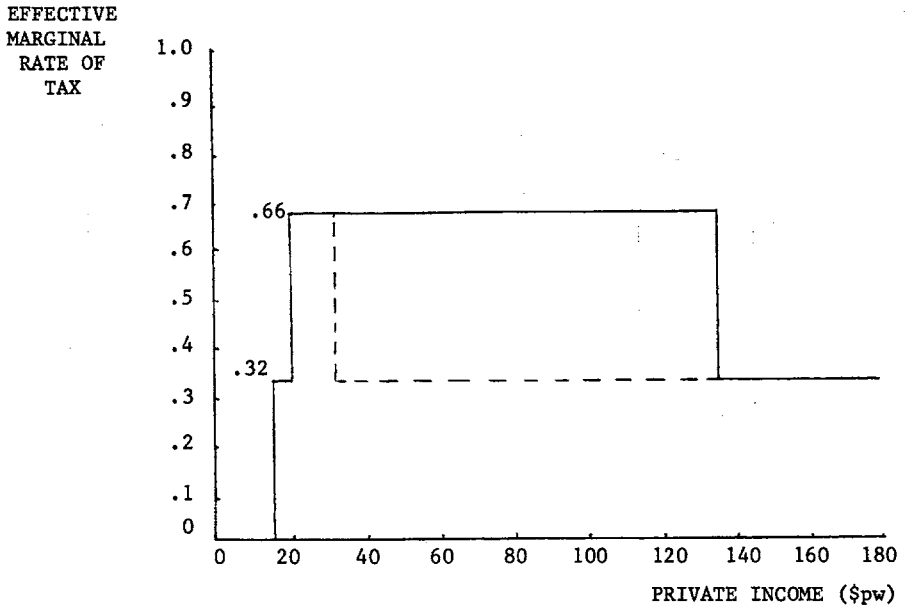
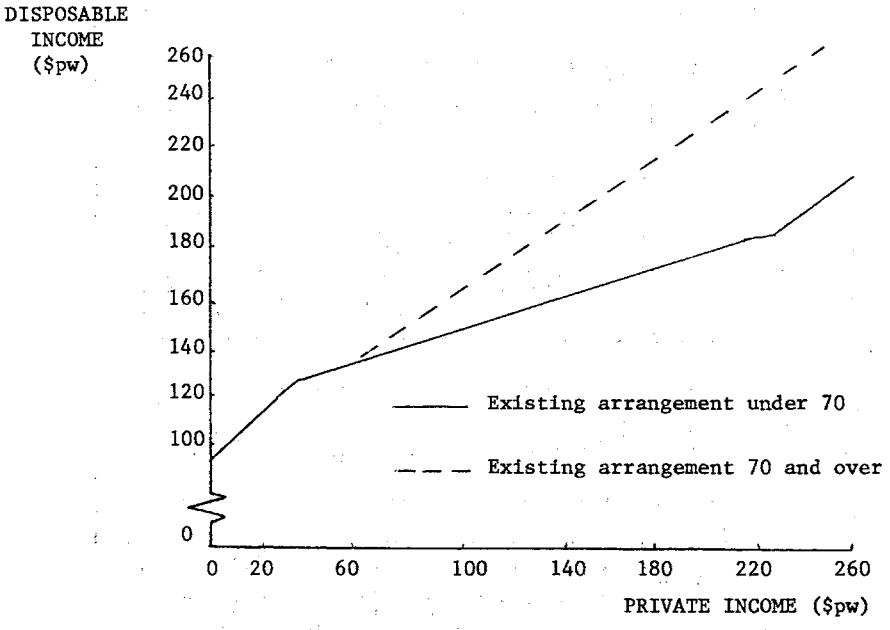


Figure III.18

MARRIED AGE PENSIONERS



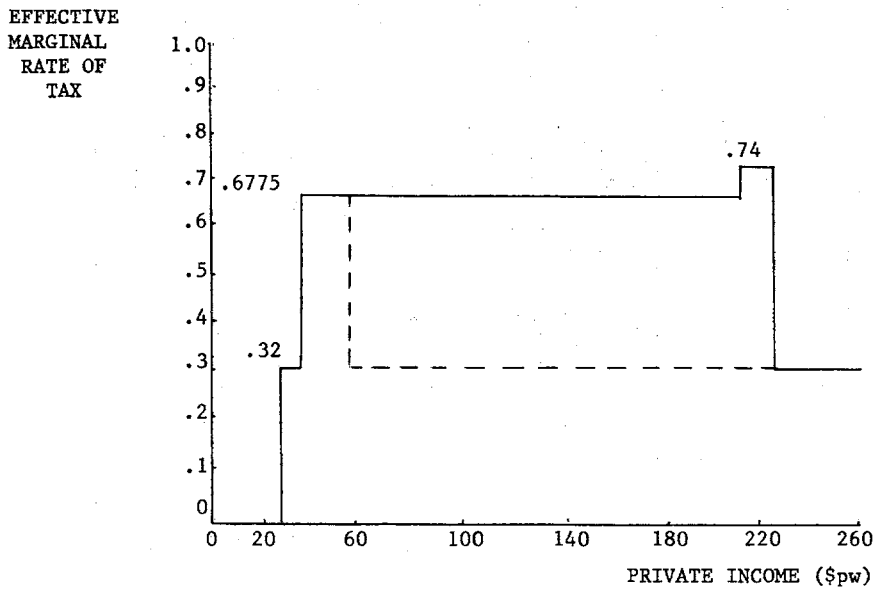


Table III.16

DISPOSABLE INCOME OF NON PENSIONERS/BENEFICIARIES AS AT DECEMBER 1979

Private Income	Single with no children		Married (b) with no children		Married (b) with 1 child		Married (b) with 2 children	
	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI
	$ a week							
0	0.00	36.65	0.00	52.20	3.50	64.50	8.50	76.80
20	20.00	48.65	20.00	64.20	23.50	76.50	28.50	88.80
40	40.00	60.65	40.00	76.20	43.50	88.50	48.50	100.80
60	60.00	72.65	60.00	88.20	63.50	100.50	68.50	112.80
80	78.36	84.65	80.00	100.20	83.50	112.50	88.50	124.80
100	91.96	96.65	100.00	112.20	103.50	124.50	108.50	136.80
120	105.56	108.65	117.04	124.20	120.54	136.50	125.54	148.80
140	119.16	120.65	130.64	136.20	134.14	148.50	139.14	160.80
160	132.76	132.65	144.24	148.20	147.74	160.50	152.74	172.80
180	146.36	144.65	157.84	160.20	161.34	172.50	166.34	184.80
200	159.96	156.65	171.44	172.20	174.94	184.50	179.94	196.80
220	173.56	168.65	185.04	184.20	188.54	196.50	193.54	208.80
240	187.16	180.65	198.64	196.20	202.14	208.50	207.14	220.80
260	200.76	192.65	212.24	208.20	215.74	220.50	220.74	232.80
280	214.36	204.65	225.84	220.20	229.34	232.50	234.34	244.80
300	227.96	216.65	239.44	232.20	242.94	244.50	247.94	256.80
320	241.47	228.65	252.95	244.20	256.45	256.50	261.45	268.80
400	284.67	276.65	296.15	292.20	299.65	304.50	304.65	316.80
500	338.67	336.65	350.15	352.20	353.65	364.50	358.65	376.80
527 (a)	353.25	352.85	364.73	368.40	368.23	380.70	373.23	393.00
600	392.67	382.05	404.15	397.60	407.65	409.90	412.65	422.20

COMPARISON OF EXISTING ARRANGEMENTS AND HENDERSON GMI

Table III.16 (Cont.)

DISPOSABLE INCOME OF NON PENSIONERS/BENEFICIARIES AS AT DECEMBER 1979

Private Income	Married (b) with 3 children		Married (b) with 4 children		Married (b) with 5 children		Two-Income Couple (c) with no children	
	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI
	$ a week							
0	14.50	89.10	20.50	106.65	27.50	116.95	0.00	52.20
20	34.50	101.10	40.50	118.65	47.50	128.95	20.00	64.84
40	54.50	113.10	60.50	130.65	67.50	140.95	40.00	77.48
60	74.50	125.10	80.50	142.65	87.50	152.95	60.00	90.12
80	94.50	137.10	100.50	154.65	107.50	164.95	80.00	102.76
100	114.50	149.10	120.50	166.65	127.50	176.95	100.00	115.40
120	131.54	161.10	137.54	178.65	144.54	188.95	120.00	128.04
140	145.14	173.10	151.14	190.65	158.14	200.95	137.08	140.68
160	158.74	185.10	164.74	202.65	171.74	212.95	153.24	158.32
180	172.34	197.10	178.34	214.65	185.34	224.95	169.40	165.96
200	185.94	209.10	191.94	226.65	198.94	236.95	183.92	178.60
220	199.54	221.10	205.54	238.65	212.54	248.95	197.52	191.24
240	213.14	233.10	219.14	250.65	226.14	260.95	211.12	203.88
260	226.74	245.10	232.74	262.65	239.74	272.95	224.72	216.52
280	240.34	257.10	246.34	274.65	253.34	284.95	238.32	229.16
300	253.94	269.10	259.94	286.65	266.94	296.96	251.92	241.80
320	267.45	281.10	273.45	298.65	280.45	308.95	265.52	254.44
400	310.65	329.10	316.65	346.65	323.65	356.95	319.92	305.00
500	364.65	389.10	370.65	406.65	377.65	416.95	387.92	368.20
527 (a)	379.23	405.30	385.23	422.85	392.23	433.15	406.27	385.26
600	418.65	434.50	424.65	452.05	431.65	462.35	450.23	431.40

(a) Income level at which GMI tax rate rises from 40 per cent to 60 per cent.

(b) Assumes husband receives all private income.

(c) Assumes income earned in proportion 60:40.

Table III.17

DISPOSABLE INCOME OF AGE PENSIONERS AS AT DECEMBER 1979

Private Income	Single				Married (b)			
	Under 70		70 and Over		Under 70		70 and Over	
	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI
	$ a week							
0	57.90	62.75	57.90	62.75	96.50	102.25	96.50	102.25
20	76.93	74.75	76.93	74.75	116.50	114.25	116.50	114.25
40	83.73	86.75	86.14	86.75	130.66	126.25	130.66	126.25
60	90.53	98.75	99.74	98.75	137.11	138.25	138.56	138.25
80	97.33	110.75	113.34	110.75	143.56	150.25	152.16	150.25
100	104.13	122.75	126.94	122.75	150.01	162.25	165.76	162.25
120	110.93	134.75	140.54	134.75	156.46	174.25	179.36	174.25
140	119.16	146.75	154.14	146.75	162.91	186.25	192.96	186.25
160	132.76	158.75	167.74	158.75	169.36	198.25	206.56	198.25
180	146.36	170.75	181.34	170.75	175.81	210.25	220.16	210.25
200	159.96	182.75	194.94	182.75	182.26	222.25	233.76	222.25
220	173.56	194.75	208.54	194.75	188.20	234.25	247.36	234.25
240	187.16	206.75	222.14	206.75	198.64	246.25	260.96	246.25
260	200.76	218.75	235.74	218.75	212.24	258.25	274.56	258.25
280	214.36	230.75	247.65	230.75	225.84	270.25	287.67	270.25
300	227.96	242.75	258.45	242.75	239.44	282.25	298.47	282.25
320	241.47	254.75	269.25	254.75	252.96	294.25	309.27	294.25
400	284.67	302.75	312.45	302.75	296.15	342.25	352.47	342.25
500	338.67	362.75	366.45	362.75	350.15	402.25	406.47	402.25
527 (a)	353.25	378.95	381.03	378.95	364.73	418.45	421.05	418.45
600	392.67	408.15	418.65	408.15	404.15	447.65	459.89	447.65

(a) Income level at which GMI tax rate rises from 40 per cent to 60 per cent.

(b) Assumes husband receives all private income.

Table III.18

DISPOSABLE INCOME OF INVALID PENSIONERS (a) AS AT DECEMBER 1979

Private Income	Single with no children		Married (b) with no children		Married (b) with 1 child		Married (b) with 2 children	
	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI
	$ a week							
0	57.90	62.75	96.50	102.25	107.50	117.40	120.00	133.85
20	77.90	74.75	116.50	114.25	127.50	129.40	140.00	145.85
40	87.90	86.75	133.76	126.25	147.50	141.40	160.00	157.85
60	97.90	98.75	143.76	138.25	157.76	153.40	173.25	169.85
80	106.26	110.75	153.76	150.25	167.76	165.40	182.23	181.85
100	109.86	122.75	160.21	162.25	172.89	177.40	187.08	193.85
120	113.46	134.75	165.06	174.25	177.74	189.40	191.93	205.85
140	119.16	146.75	169.91	186.25	182.59	201.40	196.78	217.85
160	132.76	158.75	174.76	198.25	187.44	213.40	201.63	229.85
180	146.36	170.75	179.61	210.25	192.29	225.40	206.48	241.85
200	159.96	182.75	184.46	222.25	197.14	237.40	211.33	253.85
220	173.56	194.75	188.80	234.25	201.99	249.40	216.18	265.85
240	187.16	206.75	198.64	246.25	206.40	261.40	221.03	277.85
260	200.76	218.75	212.24	258.25	215.74	273.40	225.50	289.85
280	214.36	230.75	225.84	270.25	229.34	285.40	234.34	301.85
300	227.96	242.75	239.44	282.25	242.94	297.40	247.94	313.85
320	241.47	254.75	252.95	294.25	256.45	309.40	261.45	325.85
400	284.67	302.75	296.15	342.25	299.65	357.40	304.65	373.85
500	338.67	362.75	350.15	402.25	353.65	417.40	358.65	433.85
527 (c)	353.25	378.95	364.73	418.45	368.23	433.60	373.23	450.05
600	392.67	408.15	404.15	447.65	407.65	462.80	412.65	479.25

Table III.18 (Cont.)

DISPOSABLE INCOME OF INVALID PENSIONERS (a) AS AT DECEMBER 1979

Private Income	Married (b) with 3 children	
	Present System	Preferred GMI
	$ a week	
0	133.50	152.25
20	153.50	164.25
40	173.50	176.25
60	189.75	188.25
80	198.50	200.25
100	202.27	212.25
120	207.12	224.25
140	211.97	236.25
160	216.82	248.25
180	221.67	260.25
200	226.52	272.25
220	231.37	284.25
240	236.22	296.25
260	241.07	308.25
280	245.60	320.25
300	253.94	332.25
320	267.45	344.25
400	310.65	392.25
500	364.65	452.25
527 (c)	379.23	468.25
600	418.65	497.45

(a) Below Age Pension age.

(b) Assumes husband receives all private income.

(c) Income level at which GMI tax rate rises from 40 per cent to 60 per cent.

Table III.19

DISPOSABLE INCOME OF WIDOW PENSIONERS AS AT DECEMBER 1979

Private Income	Widow with 1 child (b)		Widow with 2 children (b)	
	Present System	Preferred GMI	Present System	Preferred GMI
	$ a week			
0	74.90	84.90	87.40	105.95
20	94.90	96.90	107.40	117.95
40	102.90	108.90	123.40	129.95
60	117.59	120.90	132.13	141.95
80	124.39	132.90	138.93	153.95
100	131.19	144.90	145.73	165.95
120	137.99	156.90	152.53	177.95
140	144.79	168.90	159.33	189.95
160	148.68	180.90	164.18	201.95
180	157.88	192.90	167.78	213.95
200	171.48	204.90	176.48	225.95
220	185.08	216.90	190.08	237.95
240	198.68	228.90	203.68	249.95
260	212.28	240.90	217.28	261.95
280	225.88	252.90	230.88	273.95
300	239.48	264.90	244.48	285.95
320	252.99	276.90	257.99	297.95
400	296.19	324.90	301.19	345.95
500	350.19	384.90	355.19	405.95
527 (a)	364.77	401.10	369.77	422.15
600	404.19	430.30	409.19	451.35

(a) Income level at which GMI tax rate rises from 40 per cent to 60 per cent.

(b) One child under six or invalid.

Table III.20

DISPOSABLE INCOME OF SINGLE UNEMPLOYMENT AND SICKNESS BENEFICIARIES AS AT DECEMBER 1979

Private Income	Single Under 18		Single 18-20			Single 21 and over		
	Present System	Preferred GMI	Unemployment Present * System	Sickness Present System	Preferred GMI	Unemployment Present * System	Sickness Present System	Preferred GMI
				$ a week				
0	36.00	62.75	51.45	57.90	62.75	51.45	57.90	62.75
3	39.00	64.55	54.45	60.90	64.55	54.45	60.90	64.55
6	39.00	64.55	54.45	60.90	64.55	57.45	63.90	66.35
10	39.00	64.55	54.45	60.90	64.55	57.45	63.90	66.35
20	39.00	64.55	54.45	60.90	64.55	57.45	63.90	66.35
30	39.00	64.55	54.45	60.90	64.55	57.45	63.90	66.35
40	40.00	64.55	54.45	60.90	64.55	57.45	63.90	66.35
50	50.00	66.65	54.45	60.90	66.65	57.45	63.90	66.65
60	60.00	72.65	60.00	60.90	72.65	60.00	63.90	72.65
70	70.00	78.65	70.00	70.00	78.65	70.00	70.00	78.65
80	78.36	84.65	78.36	78.36	84.65	78.36	78.36	84.65

* With no dependants

Table III.21

DISPOSABLE INCOME OF MARRIED UNEMPLOYMENT AND SICKNESS BENEFICIARIES AS AT DECEMBER 1979

Private Income	Married (a) with no children		Married (a) with 1 child		Married (a) with 2 children		Married (a) with 3 children	
	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI	Present System	Preferred GMI
	$ a week							
0	96.50	102.25	107.50	117.40	119.76	133.85	130.86	152.25
6	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
10	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
20	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
30	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
40	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
50	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
60	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
70	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
80	102.50	105.85	113.50	121.00	123.84	137.45	134.94	155.85
90	102.50	106.20	113.50	121.00	123.84	137.45	134.94	155.85
100	102.50	112.20	113.50	124.50	123.84	137.45	134.94	155.85
110	110.00	118.20	113.50	130.50	123.84	142.80	134.94	155.85
120	117.04	124.20	120.54	136.50	125.54	148.80	134.94	161.10

(a) Assumes husband receives all private income.

IV HENDERSON GUARANTEED MINIMUM INCOME SCHEME: A PERSPECTIVE FROM THE 1980s*

Peter Saunders

IV.1 INTRODUCTION

It is now five years since the publication of *Poverty in Australia,* the First Main Report of the Commission of Inquiry into Poverty (1975). The major longer run Poverty Commission proposal was for 'moderately radical reform' of income support provisions by the introduction of a guaranteed minimum income (GMI) scheme. The early 80s are an appropriate time to review developments in income maintenance policies during the latter half of the 70s to assess whether we have moved towards this objective. One of the major reasons for the proposed GMI scheme was the failure of the existing system to provide adequate income support. This was evidenced by the finding that in 1973 6.7 per cent of adult income units, containing 6.4 per cent of the population, were below the austere poverty line constructed by the Poverty Commission, after allowing for housing costs (Poverty Commission, Tables 3.3 and 3.4, p. 15). Particularly disturbing was the fact that such units contained 230,000 dependent children.

The first objective of this chapter is to attempt to assess the partial effects on poverty of the increase in unemployment between 1973 and 1979, by calculating what poverty would have been in August 1973 had everything remained as it then was, with the exception of unemployment, assumed to be at its August 1979 level. This calculation is thus very much of a *ceteris paribus* nature; it does not indicate what poverty is in August 1979, since other things have not remained constant in the interim. Nevertheless, it is a worthwhile exercise, given that data required to comprehensively assess the change in the extent of poverty since 1973 are simply not available. After presenting the results of this analysis in Section IV.2, Section IV.3 of the chapter reviews developments in the social security and personal income taxation systems since the mid-70s to see the extent to which they conform with the transition strategy towards full implementation of the GMI scheme envisaged by the Poverty Commission. In Section IV.4 the GMI scheme itself will be analyzed in some detail, and proposals will be canvassed which attempt to overcome some of the difficulties inherent in the preferred proposal outlined in the Poverty Commission Report, pp. 75-87. The main arguments and conclusions of the analysis are summarized in Section IV.5.

IV.2 UNEMPLOYMENT AND POVERTY IN AUSTRALIA SINCE 1973

In the absence of a national income survey of the type undertaken by the Australian Bureau of Statistics (ABS) for the Poverty Commission in 1973, no reliable evidence on the current extent of poverty is available. In light of this, one must look to indirect evidence to assess likely directions of change. One of the major reasons for the existence of substantial poverty in 1973 was that many pension and benefit levels, even when supplemented by child endowment, fell below the poverty line. Thus those solely dependent on social security payments were, by definition, poor. Table IV.1 compares benefit levels over the period since 1973 with the poverty lines used by the Poverty Commission (the 'Henderson' poverty line). Except for the harsh treatment of single adult unemployment beneficiaries, pension level develoments since 1973 have been

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* This chapter was written before the publication of the Social Welfare Policy Secretariat's *Report on poverty measurement* (AGPS, Canberra, 1982).

Table IV.1

UNEMPLOYMENT AND SUPPORTING PARENTS' BENEFIT LEVELS, INCLUDING FAMILY ALLOWANCES, 1973-1980

Family Type	Proportion of Average Weekly Earnings				
	Poverty Line[1]	Benefit Level Aug.1973	Benefit Level Dec.1976	Benefit Level Dec.1979	Benefit Level Dec.1980
Single adult, under 18	30.1	19.4	19.2	14.8	13.4
Single adult, over 18	30.1	19.4	23.2	21.1	19.2
Married couple (MC)	40.3	33.8	38.6	39.6	39.5
MC and 1 child	48.4	38.3	44.5	44.1	43.6
MC and 2 children	56.5	43.2	51.1	49.0	48.2
MC and 3 children	64.6	49.1	57.6	53.6	53.3
MC and 4 children	72.7	55.2	63.7	58.1	58.3
MC and 5 children	80.4	61.5	70.3	63.0	63.7
Single parent (SP) and 1 child[2]	38.6	27.5	33.8	32.0	31.1
SP and 2 children	46.8	32.4	40.5	37.1	35.8
SP and 3 children	54.9	38.3	47.7	42.7	40.9
SP and 4 children	62.9	44.4	54.8	48.2	45.9
SP and 5 children	71.1	50.7	62.0	54.2	51.3

Notes: [1] The *Head works* poverty line is given for the unemployed, and the *Head not working* poverty line for single parents.

[2] Applies only to female supporting parents in August 1973 and December 1976.

Sources: Column 1: Poverty Commission, Table 3.1, p. 14
Column 2: Poverty Commission, Table 3.13, p. 23
Column 3-5: Calculations by the author, which incorporate the following assumptions:

(i) Some married couple beneficiaries are liable for personal income tax, since their child allowances are taxable. In calculating tax due, it was assumed that annual income was 52 times the weekly benefit level in the month indicated.

A guardian's allowance of $4 per week was assumed for single parent beneficiaries, and supplementary assistance of $5 per week.

(ii) The December 1980 calculations assume that average weekly earnings increase by 10 per cent over their December 1979 figure, to $267.80. The basic benefit levels for single parents and married couples increase by 9.5 per cent, to $63.40 and $105.70 respectively, all other benefits and allowances remaining at their December 1979 levels.

similar to those shown in Table IV.1. The figures indicate a significant improvement in benefit levels between 1973 and 1976, although not sufficient to raise them to the poverty line despite the introduction of the Family Allowances Scheme in 1976. Since 1976 however, all benefit levels, with the exception of those for childless married couples, have declined relative to the Henderson poverty line. If current indexation arrangements continue, so that payments of single adult unemployment benefits, guardians' allowances, child allowances, family allowances and supplementary assistance remain fixed in nominal terms, then by the end of 1980 many beneficiaries would find their payments relative to the poverty line similar to that prevailing at the time of the poverty survey in 1973.

These developments, accompanied by legislative changes which have reintroduced the payment of unemployment benefit in arrears thus extending the effective waiting period in many cases, and which have generally tightened the guidelines for eligibility, have meant that many recipients solely dependent on benefits have had to seek additional support elsewhere. Evidence that this is indeed the case is provided by the study of emergency relief, conducted by the Department of Social Security and the Australian Council of Social Service. This study, undertaken in early 1978, complements Table IV.1 in indicating that pension and benefit levels and, more important, payment procedures, were inadequate for many individuals. Although based on a small and in some regards non-representative sample, the results suggested that between 400,000 and 450,000 applications to welfare agencies for emergency relief were then made each year in Australia. Up to 89 per cent of clients were below the Henderson poverty line, whilst about two-thirds were Department of Social Security pensioners or beneficiaries, many giving as their reason for seeking emergency relief the fact that they were waiting for either their first, or an overdue, pension or benefit cheque to arrive. Clearly, inadequate pension and benefit levels, combined with unsatisfactory administrative procedures, have remained throughout the 70s as important factors contributing to many individuals and families falling below the Henderson poverty lines.

If pension and benefit levels have remained below the poverty line, it follows that increases in the number of people dependent upon pensions or benefits will contribute, in general, to increasing poverty. Undoubtedly the major change in this regard since 1973 has been the substantial rise in unemployment and hence in unemployment benefit recipients. The strong causal link between unemployment and poverty was emphasized throughout the Poverty Commission report. The unemployed were amongst a list of disability groupings particularly prone to poverty, and the evidence indicated that 16.6 per cent of adult income units in which the head was defined as unemployed were below the poverty line in 1973 before housing costs, this figure rising to 18.7 per cent after allowing for housing costs. In addition, amongst juvenile income units, about 26,000 or 22 per cent of the 117,000 below the (before housing) poverty line were unemployed, whether in receipt of unemployment benefit or not. These figures suggest that poverty must have increased since 1973 as a result of the rise in the extent and average duration of unemployment. Using the ABS unemployment statistics, unemployment in August 1973 was 81,600, of which 25,100 were in the age group 15 to 19 years and the remaining 56,500 were aged over twenty. By August 1979 these figures had increased to 373,800, 129,800 and 244,000 respectively, juvenile unemployment as a proportion of total unemployment increasing from 30.8 per cent in August 1973, to 34.7 per cent in August 1979. On the basis of these figures, it is possible to estimate the effects of the increase in unemployment on poverty, by calculating what poverty would have been in August 1973 if unemployment had been at the level experienced in August 1979; this is thus a *ceteris paribus* calculation, assuming everything else unchanged, and indicates the impact of increasing unemployment on poverty.

In such a calculation the Poverty Commission definition of the unemployed is important since it does not correspond to the ABS definition. For convenience it will be assumed that the relationship between the two measures

remained unchanged between 1973 and 1979. Assuming further that the proportion of the unemployed below the poverty line remains as it was at the time of the ABS 1973 survey, and necessarily neglecting housing costs, the impact of the rise in unemployment on poverty can be assessed. These calculations, presented in detail in the appendix to this chapter, suggest that as a conservative estimate by August 1979 an additional 78,500 juvenile income units and 31,100 adult income units have fallen below the poverty line. Thus, other things constant, the rise in unemployment has increased poverty amongst adult income units from 10.2 per cent to 11.0 per cent, and for juveniles from 16.5 per cent to 27.5 per cent. Aggregating both groups, poverty has increased from 11.2 per cent to 13.5 per cent between August 1973 and August 1979, solely as a result of the increase in unemployment. In order to ascertain the overall change in poverty since 1973, similar calculations are required for all groups prone to poverty. Until then, it is an open question whether these effects would reinforce or offset the above effects of increased unemployment, which alone have led to substantial increases in poverty.

IV.3 INCOME SUPPORT DEVELOPMENTS 1975-1980: TOWARDS GMI?

Whilst the introduction of a GMI scheme was the ultimate income maintenance policy goal of the Poverty Commission, it recognized that the transition towards this would take some time. This transition period, of the order of 'four or five years', is an important and integral part of the overall GMI strategy. In this section, policy changes over the five-year period since 1975 will be reviewed to assess the extent to which they constitute, or are consistent with, the transition towards the proposed GMI scheme.

A useful starting point is to consider the reform proposals outlined in Chapter 5 of the First Main Report, 'Income Support - Improving the Existing System', since these presumably embody the essence of the transition strategy. At the end of that chapter, thirteen recommendations are presented, eight directly relevant to the GMI strategy. Four of these relate to basic pension and benefit levels, two to the application of the means test, and two to the child endowment scheme then in existence. Taking these in reverse order, the two child endowment recommendations were that the income tax deductions for dependent children be replaced by higher child endowments, and that child endowment be raised to levels sufficient to ensure the minimum wage earner against poverty. The first of these was introduced in two stages during 1974-76 in the Hayden and Lynch Budgets, resulting in the new Family Allowance Scheme, although their initial level and subsequent failure to index them has not succeeded in achieving the second objective.

The two means test recommendations were that asset income be treated in the same way as other income for means test purposes, and that no two benefits be tapered away at the same time. The first was effectively achieved by the move from the means test to the income test announced in the 1976 Budget Speech. Some examples still persist of the simultaneous withdrawal of multiple benefits, for example the Pensioner Health Benefits card and entitlement to other fringe benefits is lost when private income exceeds $40 per week for single adults or $68 per week for married couples, at the same time as the pension itself is being reduced by fifty cents for each additional dollar increase in income. By and large, however, such examples arise from the separate activities of different departments and different levels of government, and it would be extremely difficult to remove all such anomalies.

This discussion leads one to consider the extent of overlap and integration between the social security and personal income taxation systems, and how this has changed over recent years. This issue is treated at length by Podger, Raymond and Jackson in Chapter III.

The two systems become fully integrated under the GMI scheme, in the sense that the income tax system is the mechanism for 'clawing back' the universal minimum income payments from those with private income. Thus the transition towards GMI should exhibit increased overlap, and in many ways this has indeed occurred. Examples include the introduction in 1973 of liability of age pensions to income tax, its extension to other pension and benefit categories in 1976-77 and, more recently, the income-testing of indexation increments to age pensions for the over-70s. As a result of these changes, age pensioners over 70 now face a system very similar to that envisaged under the proposed Henderson GMI scheme. In addition, effective income tax thresholds, defined as the income at which net transfers from the government become zero, have been raised to the respective poverty lines. This is illustrated in Table IV.2 for July 1980, as a result of the changes coming into effect then, although it should be noted that appropriate threshold indexation arrangements are required for this situation to be maintained.

Table IV.2

POVERTY LINES, EFFECTIVE INCOME TAX THRESHOLDS AND PENSION AND BENEFIT LEVELS, JULY 1980
($ per annum)

Income Unit	Henderson Poverty Line: at Home	at Work	Effective Income Tax Threshold
Single pensioner	3,231	4,004	4,033
Married couple (MC)	4,574	5,356	6,533
MC and 2 children	6,755	7,514	7,917
MC and 4 children	8,922	9,667	9,867
MC and 6 children	10,956	11,726	12,142

The four recommendations relating to basic pension and benefit levels were: that their levels be raised to the poverty line; that they be indexed automatically in line with average earnings or Gross Domestic Product (GDP) per head; that payment levels and conditions of payment be standardized for all pensions and for all benefits; and the general principle that maintenance of basic pension and benefit levels has priority over easing of the means test. The first of these has not been achieved, as Table IV.1 indicates. The second relates to the relative view of poverty on which the Poverty Commission Report is based, although it has not been implemented, except insofar as it is achieved as a result of Consumer Price Index (CPI) indexation of pensions and benefits, coupled with wage indexation. Even so, there are serious gaps in existing pension and benefit indexation arrangements, as indicated earlier. Standardization of pension and of benefit levels was effectively achieved in 1973, although this is no longer the case due to subsequent changes in indexation procedures and eligibility criteria which have been particularly generous to the aged among pensioners, and particularly harsh to certain of the unemployed among beneficiaries.

The final recommendation expresses the Poverty Commission's fundamental acceptance of the selectivist principle. The introduction, in two stages during 1973-75, of means-test-free pensions for those aged over 70, initially appears as a significant movement away from selectivity, although as indicated above, this was accompanied by changes to taxation arrangements which conform to the selectivism embodied in GMI schemes. Nevertheless, the resultant rise in the number of persons receiving old age pensions was dramatic: the annual average increase in the decade up to 1972 was 3.5 per cent, this increasing to an annual average of 10.1 per cent for the period 1972-75 (DSS 1976-77, Table 1, p. 60).

Expenditure on age pensions increased by 237 per cent, from $680 million in 1972 to over $1,600 million by 1975. In some regards, this change is inconsistent with the Poverty Commission transition strategy, in that easing of the means test has been given priority over raising of basic pension levels. In addition, this represents a movement away from standardization of all pensions, and, by being generous to this particular group of pensioners, implies that their relative position would undoubtedly be worsened, possibly considerably in some cases, by the introduction of a GMI scheme.

In addition to changing the basis of, and conditions for, the receipt of income maintenance payments, the GMI scheme also implies changes in the personal income taxation system. The proposed scheme is based on a linear tax schedule, supplemented by surtax on high income recipients. With no tax threshold, this implies two marginal tax rates: a standard rate of 40 per cent, and a higher rate of 60 per cent. Since the early 70s the number of rate scales has been reduced in stages to four, these currently being zero, 32 per cent, 46 per cent and 60 per cent. The standard rate of 32 per cent is faced by over four-fifths of taxpayers. In terms of the structure of the personal income taxation system, it is clear that developments in the 70s represent a movement towards the tax structure implied by the proposed GMI scheme. In other regards, particularly the issue of the tax unit, the GMI scheme represents a substantial departure from existing practices. These, and some of the issues raised above, are considered in more detail in the discussion of GMI schemes which follows.

IV.4 THE PROPOSED GMI SCHEME

Before discussing the details of the GMI scheme proposed in the Poverty Commission Report, two important considerations should be noted. The first is that the proposed scheme is one variant of an infinite array of possible GMI schemes. The essential feature of Poverty Commission type GMI schemes, and all negative tax schemes, is full integration of social security and personal income taxation systems. Once this is achieved, equity, efficiency and simplicity objectives can be balanced by selecting the appropriate GMI level(s) and tax rate(s). (See Saunders (1976), Pritchard and Saunders (1978), Manning and Saunders (1978), and Poverty Commission, Vol. 2, Appendix 6, pp. 69-93) There is no reason, for example, why minimum income payments need be standardized under a GMI scheme; they could be set at different rates for each class of recipients. The GMI scheme represents a change in the basic principles and mechanisms of the income support system; but these need not be accompanied by changes in the structure of payment levels themselves. Once this point is recognized it no longer follows that recent movements away from standardization (unemployment benefits for single adults; age pensions for those over 70) imply movements away from the introduction of a GMI scheme. What was argued above was that such developments were not consistent with the *particular* GMI scheme proposed in the Poverty Report. But I shall continue to discuss the Poverty Commission's proposed scheme, simply because costings of the scheme have been undertaken in detail in its Report, and it thus serves as a benchmark against which alternative proposals and amendments can be assessed.

The second point is equally obvious, but easily forgotten. This is that when comparing the proposed GMI scheme with existing arrangements, it must be remembered that the resources devoted to income maintenance are significantly larger in the former case. Despite the fact that the proposed GMI scheme is self-financing, in the sense that the tax rate is set to raise sufficient revenue to finance the GMI payments, it is nevertheless not costless. The cost of the GMI scheme in 1973 is in fact $900 million, this representing its net redistributive impact, so that it cannot be compared directly with the existing (i.e. 1973) system. The relevant comparison is between the GMI scheme and the existing system improved by devoting additional resources equal to those required to finance the GMI scheme. The Poverty Report calculates the cost, in 1973, of improving the existing system in line with the transition strategy

discussed above as $560 million (pp. 320-21). This is sufficient to finance the raising of all pensions and benefits to the poverty line, the replacement of taxation deductions for dependent children by increased child endowment payments, abolition of the waiting period (which was then seven days) for unemployment benefits, the introduction of a pension and fringe benefits for motherless families, and several other improvements. The question then is, if this were done, what extra benefits would be gained by the introduction of the GMI scheme which might justify the additional $340 million?

The Poverty Commission provides five additional benefits which would arise if their preferred GMI scheme were implemented, the last four of which arise from administrative integration of the social security and personal income taxation systems (pp. 68-69). These are:

(i) The payment of a minimum income to all, and a higher rate to particular categories reduces the existing differential in payments, and thus reduces the incentive to join favoured categories;

(ii) administrative integration will reduce poverty traps;

(iii) individuals with fluctuating incomes, who may become beneficiaries for part of the year, will no longer be favoured relative to those with the same annual income received steadily throughout the year;

(iv) automatic payment of the GMI will avoid the problems of those who do not receive, for whatever reason, their pension or benefit entitlement under existing arrangements;

(v) separate administrations imply a 'social segregation by income' which is undesirable.

Taking these in turn, the first is certainly true, although any resultant efficiency gains must be weighed against the additional cost of the GMI scheme. The second can be disputed since, as indicated above, high withdrawal rates often result from the interaction of separate government departments and levels of government and will not necessarily be removed by the GMI scheme. Similarly, the situation discussed in (iii) will not be removed by the proposed GMI scheme, since the unemployed will receive the higher (categorical) GMI payment, and thus will still be better off than someone earning the same annual income steadily throughout the year. (This could, however, be rectified by appropriate end-of-year tax adjustments to those in receipt of categorical payments for part of the year only.) The fourth argument is correct to some extent, although take-up problems will remain under the proposed GMI, since the higher payments have to be applied for. It is only the fifth argument which would appear to be a clear advantage of the GMI scheme, and even here this depends upon the extent of stigma which is imposed on current social security pension and benefit recipients.

In summary, when appropriate comparisons are made between the proposed GMI scheme and improvements in existing arrangements, the apparent advantages of the former are much less than they might first seem. This is not to deny, however, that there are additional benefits of the GMI scheme, in particular the potential for reducing stigma. The question is whether or not these additional benefits justify the extra cost and transition adjustments required to achieve them.

Let me now turn to more detailed analysis of the proposed GMI scheme. The three elements of the scheme are:

(i) GMI payments for categorical income units at 106 per cent of the poverty line;

(ii) GMI payments for non-categorical units at 62 per cent of the poverty line, rising to 65 per cent for a four-child family, thence by degrees to 71 per cent for a seven-child family;

(iii) a linear tax rate of 40 per cent on all private income, excluding the GMI payments, supplemented by a 20 per cent surtax on incomes (in 1973) in excess of $240 per income unit.

Such a scheme is self-financing, in the sense that the tax rates raise sufficient revenue to finance the GMI payments and to cover contributions to the finance of general government expenditures equal to that provided by the existing personal income taxation system. The gross costs of the scheme in 1973 are presented in Table IV.3. The following discussion of the scheme falls into three parts: minimum income levels and tax rates; the tax unit; and administrative considerations.

Table IV.3

COSTS OF PROPOSED GMI SCHEME, EXCLUDING THE SELF-EMPLOYED, AUGUST 1973

	$ million per year		
	Costs		Revenue
Minimum income payments:			
Categorical	2,510		
Non-categorical	4,970		
		7,480	
Revenue for other purposes of government:		2,310	
Total:		9,790	
40 per cent linear tax:			9,958
Surtax:			160
			10,118
Less Working wives' relief:*			302
			9,816

* Working wives' relief is discussed below

Source: Commission of Inquiry into Poverty, *First Main Report*, Vol. 2, *op cit.*, Table 6.12, p. 70.

(a) Minimum Income Levels and Tax Rates

The minimum income payment levels are set to ensure that all income units are raised above the poverty line, either automatically in the case of categorical units, or when supplemented at least by minimum wages for non-categorical units. By relating the payments explicitly to the poverty lines, these become crucial in determining the vertical and horizontal redistributive effects of the scheme. The Poverty Commission recognized that in some regards the equivalence scales on which their poverty lines are based were inadequate, being derived from an expenditure survey of New York households in 1954. In a recent paper, Henderson (1980) has noted that the scales used in the Poverty

Report are similar to those derived by Townsend (1979) in his work on poverty in the United Kingdom. On the other hand, work on Australian data by Kakwani (1977), summarized by Saunders (1980), produces a different set of equivalence scales. It therefore remains to be seen whether poverty lines will ever be constructed which are sufficiently robust, in theoretical and empirical terms, to justify their key redistributive consequences in the context of GMI or alternative income maintenance schemes.

Indexation arrangements under a two-tier GMI scheme of the type proposed present no more serious problems than at present. Income tax indexation, required since the combination of flat rate minimum income payments and linear tax is progressive, can be achieved by indexing the non-categorical payments to the CPI. Similar arrangements for categorical payments would maintain the real living standards of the recipients, but not their relative standard. In order to achieve the latter, categorical payments would need to be raised in line with the growth in average disposable incomes of non-categorical units; in real growth situations, this would be less than the growth in average weekly earnings.

As indicated above, the tax scheme implied by the GMI proposal is progressive, despite the linear tax schedule, because of the flat rate GMI payments. Progressivity is enhanced by the surtax, designed to offset the gains to high income recipients which would accrue under the 40 per cent linear tax. The surtax, however, would reduce many of the advantages of the linear tax, whilst raising relatively little revenue. It would be preferable to abolish the surtax, and offset any undesirable redistributive effects through compensatory tax adjustments elsewhere, possibly by some form of capital taxation restricted to the wealthy.

The advantages of the linear income tax compared to the existing system have been emphasized in recent discussions of tax reform in Australia. Tax avoidance in general, and income-splitting in particular, have undermined the equity and stability of the system, to the extent where Mathews (1980, pp. 30-31) has argued that:

> Despite the emphasis which has been given to vertical equity in the design of the Australian income tax system, the essential problem is not to make the rich pay higher rates of tax, or even more tax, than the poor; it is to make the rich pay any income tax at all.

The linear tax has also been the subject of recent contributions by Head (1977; 1979), who argues that the Henderson GMI proposal is consistent with the emphasis on simplicity as a goal of tax reform to be found in the report of the Taxation Review (Asprey) Committee (1975). Although that committee did not propose such a tax, a linear tax of the GMI type would considerably reduce many of the administrative complexities of the current personal income tax system. The need for income averaging would disappear, as would the need for most end-of-year tax adjustments. The distinction between tax deductions and tax rebates would be removed, these being equivalent under the linear tax. Finally, the issue of the appropriate tax unit is resolved, since intra-family income-splitting no longer affects the total (family) tax burden. The resultant savings in administrative costs would be accompanied by the enhancement of horizontal and vertical equity objectives, currently eroded by tax avoidance through income-splitting practices.

Additional advantages can be gained, as Head points out, if the GMI type linear income tax were combined with a company income tax, set at the same rate, with dividends either excluded from the personal income tax base, or a full imputation system in operation. Such an integrated system would

> ... end once and for all the fundamental complexity involved in the intrusion of tax considerations on major business policy decisions, such as pay-out policies, debt-equity ratios and forms of business organisation (Head 1977, p. 12).

A similar compendium of the advantages of the linear income tax is to be found in the Meade Report (1978), where the administrative simplifications are again stressed.

Clearly, the GMI scheme has much to recommend it from a tax reform perspective, particularly if the surtax is excluded. Some of the advantages discussed above could also be obtained under a proportional tax system, accompanied by increased pensions, benefits and allowances, although it would be difficult to ensure that the low-paid were not adversely affected. Alternatively, a linear tax with a threshold would produce administrative simplification and could be designed to remove the benefits of intra-family income-splitting by designing the dependants' allowances appropriately. For example, the current tax advantages of income-splitting between husband and wife could be removed by setting the dependent spouse rebate equal to the tax threshold multiplied by the tax rate, and withdrawing it by the rate of tax as the spouse's income rose.

In summary, many of the advantages of the GMI scheme arise from its implied reform of the personal income taxation system. These are particularly strong if the surtax component of the scheme is removed. However, these tax reform advantages can also be wholly or partly achieved under alternative linear tax systems. Thus the arguments do not necessarily constitute a case for the particular form of linear tax implied by the GMI scheme.

(b) The Tax Unit

Currently the personal income tax system is based on the individual unit, whilst the social security system is based on the family unit, including *de facto* relationships. The Poverty Report argues that a common unit is required under an integrated GMI scheme, and that the nuclear family of husband, wife and dependent children is appropriate. However, even if the extent of intra-family income pooling is sufficient to justify family circumstances being a determinant of the degree of income support provided, it does not follow that the mechanisms through which payments are made cannot respect the rights of individual family members, by directing payments to individuals within the family. Indeed the Poverty Commission canvasses two such proposals: that older children might receive their own component of the GMI payment directly, and that mothers might continue to receive the family allowance component of the GMI (p. 74). It should be noted that these suggestions imply a belief that income sharing within the family may not be as wide-spread as the underlying argument for the family unit assumes; but see also Ironmonger in Chapter II above.

Arguments against the adoption of the aggregation form of family unit for income tax purposes have recently been summarized by Edwards (1979) and Groenewegen (1979). They point out that the equity, efficiency and simplicity objectives of the tax system will not necessarily be enhanced under family unit taxation. The undermining of horizontal and vertical equity which arises from income-splitting practices can be removed, or reduced, in other ways, whilst the adoption of the family unit would impose additional inefficiencies in respect of the work incentives of married women and add considerably to the administrative complexity of the tax system. The last point would be particularly important if *de facto* relationships were included. In this regard, the Taxation Review Committee (1975) argued against the inclusion of such relationships, on the grounds that:

> The Commissioner could not enforce the law in regard to a de facto relationship without what might be thought to be an unacceptable invasion of privacy. (para. 10.29, p. 138.)

The exclusion of such relationships would, however, introduce inequities acting against formally married couples. In light of these administrative difficulties and the fact that the choice of tax unit is in any case of less

importance under a GMI scheme with a linear tax throughout, an individual unit GMI scheme clearly deserves further consideration.

A GMI scheme based on the individual unit has been suggested by Edwards (1976) and Manning and Saunders (1978). Such a scheme was considered in the Poverty Report itself, but rejected as being too costly, the tax rate increasing from 40 per cent to 44 per cent. This, however, was because the proposed individual GMI levels were set at the same rate as in the preferred proposal, thus being overly generous to married couples. A more sensible arrangement would be to pay, on an individual basis, all adults a GMI payment equal to one half of the married rate in the preferred proposal. The position of married couples would thus be unaltered, but single adults would be worse off. The resulting cost savings could then be used to pay a separate Living Alone Allowance (LAA), sufficient to restore the position of single adults living alone. The implied levels of the LAA would be $5.30 per week for categorical units and $4.80 per week for non-categorical units. (The LAA would not be paid to sole parent families, who are assumed to continue to receive the same GMI payments as under the Henderson preferred proposal.) Cost savings would thus result from the lower payments to non-married adults living together. The current practice of determining eligibility for categorical payments by family rather than individual circumstances would be maintained, although it would be possible to direct payments at the appropriate rate to individual family members.

The choice of the individual unit would also affect the revenue implications of the GMI scheme. Paradoxically, the revenue collected would be greater if an individual unit GMI scheme were adopted. The reason for this is that the Poverty Commission argued that the adoption of a family unit would treat two-income families unduly harshly, relative to existing tax arrangements, and they thus proposed special relief to married couples where both work to offset this. Under an individual unit GMI scheme, such relief would not be given, thus producing revenue savings as a result of the harsher treatment of two-income families. The net revenue saving from the abolition of working wives' relief would, in 1973, have been $246 million. This could be used to finance the abolition of surtax, costing $104 million, and in addition to either raise the GMI payments slightly, or lower the tax rate from 40 per cent to 39.5 per cent. The overall costing of the scheme, assuming a lowering of the tax rate, is given in Table IV.4. Under such a scheme GMI levels are maintained for all except non-married adults living together, surtax is abolished, the linear tax rate is reduced slightly, and the shortcomings of the family unit system are avoided. Income support is determined on the basis of family, or rather household, characteristics and needs, yet the rights of individuals are maintained, if not enhanced.

(c) Some Administrative Considerations

In discussing the administrative implications of the GMI scheme, attention will be focused on income support arrangements, since this was the major concern of the Poverty Commission. A major objective of the GMI scheme is to simplify income maintenance arrangements. This is regarded as desirable as a means of reducing costs of administration, thus easing general revenue requirements, and to make the system more easily understood and accessible, thus increasing the probability that those eligible for assistance receive their full entitlement.

The potential for reduced administrative costs as a result of simplification is stressed throughout the Poverty Report. In its consideration of alternative forms of GMI schemes, administrative considerations are mentioned as militating against several variations on the preferred proposal. Amongst these are schemes in which GMI payments vary across categories, means tests are retained, or tax schedules other than the linear tax are proposed. However, when the Poverty Commission considers whether the proposed GMI scheme will in fact lighten the administrative load, its response is that:

Table IV.4

THE COSTS OF AN INDIVIDUAL UNIT GMI SCHEME, EXCLUDING THE SELF-EMPLOYED, AUGUST 1973

	$ million per year		
	Costs		Revenue
Minimum income payments:*			
Categorical	2,228		
Non-categorical	4,528		
		6,756	
Living along allowances:			
Categorical	282		
Non-categorical	442		
		724	
Revenue for other purposes of government:		2,310	
Total:		9,790	
39.5 per cent linear tax:			9,830

* Minimum income payments would be somewhat lower, because of non-married couples living together.

... we are not in a position to give an unequivocal answer. The best that can be said is that the scheme gives the opportunity for administrative simplification. (Main Report, Vol. 1, p. 82.)

In evaluating the potential benefits from administrative savings, one must begin with the costs of administering the existing system. In 1978-79 this amounted to $220.6 million, or 2.71 per cent of total expenditure on social security and welfare. This represents a decline during the 70s; in 1972-73 administrative costs represented 3.03 per cent of total expenditure. This decline should be viewed in light of the increased numbers of claims handled by the Department of Social Security, these rising from approximately 5.8 million in 1972-73 to almost 6.8 million in 1978-79. These observations should, however, be tempered by the fact that delays in receipt of pension and benefit cheques are not uncommon, as evidenced by the Emergency Relief Study mentioned earlier.

These figures indicate that in revenue terms, the potential savings from administrative simplification are not large, particularly since any manpower savings are likely to be absorbed elsewhere in the system. Further, it need not necessarily follow that a simpler system, which reduces administrative costs per claim, also reduces total administrative costs, since the number of claims may increase. Such an increase would undoubtedly occur under a GMI scheme, as pointed out by Richardson (1979), who estimates that the volume of payments would approximately double. Accompanying this increase in the volume of payments may be more problems in establishing addresses to which GMI payments will be sent. As well as the problems arising from those with 'no fixed abode', there is the additional problem of keeping up to date records for those continually changing address. That such problems may be acute, particularly amongst those on low incomes, is evidenced by the findings of the Emergency Relief Study, that 7.1 per cent of clients had no fixed abode, whilst 28.7 per cent of clients had changed address more than once in the previous six months.

The second potential benefit from administrative simplification arises on the demand side. It is argued that a simpler, more easily understood system is more likely to ensure that individuals claim their full entitlement. Further, by avoiding complicated investigative procedures required to establish eligibility, a simple system can reduce, if not eliminate, the stigma associated with the current system. I take it as axiomatic that non-receipt of entitlement, whether through ignorance or fear of stigma, is undesirable, and all efforts should be made to eliminate it. There is, however, very little evidence for Australia on the extent of non-receipt of entitlement, for whatever reasons. The Poverty Commission found evidence of:

> ... 17,000 units *apparently* entitled to a pension/benefit but not receiving one through ignorance or pride. This figure of 17,000 (is) probably at least 2 per cent of existing beneficiaries ... Furthermore, it does not take into account those persons not taking advantage of the tapered means test on pensions and benefits, and the allowable private income before tapering commences. (First Main Report, p. 22; italics added.)

The paucity of evidence for Australia in this area clearly needs to be rectified. It stands in stark contrast to the situation in the United Kingdom, where the abundant evidence, much of it collected by government departments themselves, has recently been summarized by Townsend (1979). Townsend's work suggests that almost two and a half million people in the United Kingdom, representing 4.4 per cent of the population, are eligible for but not receiving Supplementary Benefit. Evidence for Australia on the size of such problems, and reasons for their existence, is required before we can evaluate the benefits from their removal. With regard to the proposed GMI scheme, it is important to establish whether non-receipt of entitlement is the result of 'ignorance' or of 'pride'. If it is the latter, the effects of the GMI scheme may be minimal since the higher (categorical) GMI payments still have to be applied for. Against this, the GMI scheme would reduce non-receipt through ignorance, by the automatic nature of non-categorical GMI payments. In addition, the combining of social security and income tax into an integrated system may reduce stigma.

IV.5 SUMMARY AND CONCLUSIONS

In this chapter I have reviewed developments in the social security and personal income taxation systems in the latter part of the 70s in light of the longer run objectives of the Poverty Commission. It is apparent that the increase in unemployment in Australia since 1973 has contributed to raising the extent of poverty. I have estimated that the increase in unemployment, all other things constant, has caused poverty in Australia to rise from 11.2 per cent in 1973 to 13.5 per cent in 1979. Many individuals are forced to seek emergency relief, largely from voluntary welfare agencies, often because they are either ineligible for income support from government, or because of delays in receipt of pension and benefit cheques. Pension and benefit levels have remained, in most cases, below the poverty line, particularly for the single unemployed, single parents and families with children, all of whom receive pensions or benefits partly or wholly non-indexed. If existing indexation arrangements continue, pension and benefit levels, relative to average weekly earnings, will, by the end of 1980, be little above those prevailing in 1973.

Policy developments since 1975, in particular the greater integration of social security and personal income taxation systems, are consistent with the overall GMI transition strategy. At the same time, by improving the existing system, they have reduced the need for 'moderately radical reform' by the introduction of a GMI scheme. The major remaining problems with the existing system are inadequate pension and benefit levels, unsatisfactory indexation procedures in many cases, lack of coverage in some cases (the low-paid for

example) and the stigma imposed on recipients. It is not obvious that a GMI scheme will resolve these problems, particularly the first two.

In considering the proposed GMI scheme in detail, it has been argued that many of its advantages arise in the implied reform of the personal income taxation area, by the introduction of a linear tax schedule. These become more apparent if the surtax component of the scheme is abolished, accompanied by compensatory tax adjustments elsewhere. Such advantages can, however, be achieved by other forms of linear income tax, if designed appropriately. A GMI scheme based on the individual unit appears to have considerable advantages over the proposed family unit scheme. It recognizes that household composition should determine the degree of income support, but enhances the rights of individuals through the mechanisms of income maintenance payment and taxation. The administrative advantages of the simplified GMI scheme, emphasized throughout the Poverty Report, are unproven due to the current lack of relevant evidence for Australia. The costs of administering the existing system do not appear excessive, and the extent of cost savings under the GMI scheme are unspecified. The scheme may reduce non-receipt of entitlement through ignorance or stigma, but by how much we cannot say given currently available evidence. Data relating to such matters are crucial inputs into informed choice between the two systems, and between alternative GMI schemes.

APPENDIX

UNEMPLOYMENT AND POVERTY, 1973 AND 1979

This appendix sets out in detail the assumptions and calculations which underlie the figures presented above on the effects on poverty of the increase in unemployment between 1973 and 1979. Table IVA.1 presents the numbers unemployed, looking for full-time and for part-time work, in August 1973 and August 1979.

Table IVA.1

UNEMPLOYMENT IN 1973 AND 1979

	Aged 15-19	Aged 20 and over	Total
August 1973	25,100	56,500	81,600
August 1979	129,800	244,000	373,800
Increase	104,700	187,500	292,200

Sources: (1) ABS, *Employment and Unemployment*, March 1974, Table 10.
(2) ABS, *The Labour Force, Australia*, August 1979, Tables 1 and 5.

Juveniles solely dependent on unemployment benefits will be below the poverty line in August 1979 (Table IV.1); however some will receive parental assistance in various forms. Thus it is assumed that only three-quarters are solely dependent on unemployment benefit. Then the increase in the number of juveniles poor due to the rise in unemployment between 1973 and 1979 becomes 78,500. This represents an increase of 67.1 per cent over the 117,000 juveniles who were poor in August 1973. In 1973, before housing costs, 16.5 per cent of juveniles were below the poverty line. Had unemployment thus been at its August 1979 level, juvenile poverty would have increased to 27.5 per cent.

Unemployment amongst non-juveniles increased by 187,500 to 244,000 by August 1979. The Poverty Commission found that, before housing costs, 16.6 per cent of the unemployed were below the poverty line. Thus the increase in poverty due to the rise in unemployment is calculated as: 0.166 x 187,500 = 31,125. This increases poverty from 10.2 per cent in August 1973 to 11.0 per cent in August 1979. The estimates are summarized in Table IVA.2.

Table IVA.2

UNEMPLOYMENT AND POVERTY, 1973 AND 1979 (BEFORE HOUSING COSTS)
(per cent)

	Poverty, August 1973	Poverty on 1973 Basis if Unemployment had been at its August 1979 Level
Juveniles	16.5	27.5
Non-juveniles	10.2	11.0
All	11.2	13.5

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PART TWO

HEALTH

V FINANCING HEALTH CARE IN A FEDERATED MIXED ECONOMY

J.S. Deeble

V.I INTRODUCTION

The purpose of this chapter is to outline the development of health services financing in Australia over the last decade or so, and some of the lessons which might be learned from it. Much of the emphasis inevitably falls on the period since 1972 when a government committed to apparently radical changes in insurance financing came to office. The course of policy since then has been, to say the least, erratic and Australia has the somewhat dubious distinction of having had, probably, the shortest-lived national health insurance scheme in history. Since the antecedents to these policy upheavals lie in the structure of Australian health services and their history, some examination of these factors is unavoidable.

V.2 SOME BACKGROUND

Like our methods of government, the Australian health care system is an amalgam of the British and American systems. Though its main institutions are of British origin, the medical profession is organized along U.S. lines. The predominant mode of practice is fee-for-service private practice. The best estimates of numbers are that there were about 23,600 physicians in the country in 1978 - some 165 doctors per thousand of population - and that about 19,000 were engaged in some private fee-for-service practice. However, a number of these combined part-time private practice rights with salaried employment. The number of exclusively private practitioners is not known with accuracy but would have approximated 16,000 or about two-thirds of all physicians. In contrast to the United States, general practice has been maintained at a fairly high level - over half of all private practitioners - and the proportion has recently been rising after years of increased specialization. The financing system encourages general practice; though access to specialists is legally unrestricted, the normal practice is for GP referral and the insurance schemes do not pay full benefits for specialist services without a formal referral form. Multi-specialty group practice is relatively rare in Australia and the organization of practice is typically small-scale.

Medical practice is relatively uniform throughout the country. It is in the hospital systems that the federal nature of Australian government produces diversity. Except for Veterans Affairs hospitals, hospitals are state government responsibilities and each state has a strong hospitals or health commission. General hospitals are predominantly 'public' - about 80 per cent of beds are in public institutions - but only a minority are owned and operated directly by governments. In most states, public general hospitals are independently managed, but currently undertake to provide care (including in-patient medical care) without charge to all who seek it, and in return are entitled to state subsidy on a budget-review basis (*not* on an individual patient or daily rate basis). About 20 per cent of beds are in private hospitals which exist entirely on fee revenue, of which less than half are conducted for profit. For historical reasons related to government structure, Australia never developed equivalents of either the municipal hospitals of Britain or the voluntary, community hospitals of the United States, and the private sector has remained relatively small. The public hospitals thus service much of the private practice in-hospital work and state subsidies extend to these patients as well. Some 60 per cent of all admissions to public hospitals are in fact 'private patients' paying state-regulated fees of only about half

average operating costs, so that many of the community hospitals in the U.S. would be classified as 'public' in Australia.

However, the balance of public and private work, and the relationships between doctors and the public hospitals vary significantly between the states. Queensland, which has had a free public hospital service with salaried doctors (mostly part-time from private practice) for more than forty years, has the closest to a European system, with Tasmania and, to a lesser extent, South Australia following a similar trend. In New South Wales, Victoria and Western Australia, relationships are more like those in North America. It is, in fact, impossible to draw a clear distinction between the public and private sectors. Many public hospitals' outputs are inputs to the private medical industry, in return for which the public sector has always depended heavily on private practice doctors for the medical component of much of its health care.

General hospitals and medical services account for nearly 60 per cent of all Australian health expenditures. The remaining large items are psychiatric hospitals, nursing homes and out-of-hospital prescribed drugs. Psychiatric hospitals are almost entirely state owned and provide free care. There is a small psychiatric element in the general hospitals, but private psychiatric hospitals are unimportant. By contrast, long-term care in nursing homes is provided largely entirely by private organizations (of which about half are profit-seeking), supported by private insurance and a federal government subsidy scheme which pays daily benefits and/or budget subsidies to approved homes. Since over 90 per cent of nursing home patients are of pensionable age, the scheme effectively provides a much higher pension level to those resident in nursing homes than to those resident outside. A medical certificate of 'need' is required on admission. Growth in this sector was very rapid up to 1974 when federal government financial curbs sharply reduced the incentives to expansion in the private sector. Prescribed drugs are covered under a federal government program which provides nearly 95 per cent of all out-of-hospital prescriptions at a uniform fee of $2.75 per prescription to the patient, with no charge for age pensioners or veterans. The balance of a government negotiated price is paid by the government to the supplying pharmacist, so that the financial impact of high-cost drug utilization is greatly reduced so far as the consumer is concerned.

As can be seen, government involvement in both the administration and the financing of health services is great, and has been so for many years. The state health/hospital commissions have a direct control over both the operating and capital expenditures of public hospitals, although state governments also control the registration of doctors and the regulation of medical practice. Despite this control, the ratio of acute general hospital beds to population (6.5 per thousand) is high by international standards.

States have not involved themselves financially in out-of-hospital medical care. This has been a federal government function which until 1975 involved:

(a) the subsidization of cash benefits to people who contributed to approved, non-profit health insurance funds;

(b) the provision of free services to aged and invalid pensioners through agreements with the Australian Medical Association with respect to GP services, and with the state public hospitals with respect to in-patient and specialist out-patient care.

These federally supported schemes began in 1952 and by 1975 covered about 86 per cent of the population. The uncovered 14 per cent included low-income earners (despite attempts to locate and subsidize this group), certain national minorities - particularly recent migrants from Southern Europe - but also included an unknown number of young, healthy people for whom insurance was unattractive. The non-profit insurance organizations operated on a relatively small scale in each state, incurred high administrative expenses and accumulated

considerable reserves. Community rating was mandatory and the subsidy system effectively excluded commercial competitors. As a consequence, there was considerable public disquiet in the late 1960s and early 1970s over both efficiency and the failure of the private insurance system to achieve universal coverage, particularly of the most disadvantaged groups. Linked with these concerns was a growing dissatisfaction with programs for the aged and the poor which required categorization, and the stigma which many people believed to be attached to them.

At a more technical level, the subsidized private insurance system was criticized for the quality of the insurance which it offered - coverage was best for the inexpensive and relatively predictable GP services, least satisfactory for expensive and episodic specialist treatment - but this and other problems were the inevitable consequence of the structure of the scheme. From its inception, it depended for its success on meeting sufficient of the separate interests of the major parties to maintain their participation without imposing any binding obligations on them. Not surprisingly, the interests of producers - doctors, hospitals (plus the states which controlled them) and the benefit funds - tended, over time, to override the broader welfare issues.

The response of the government of the day was to restructure the medical insurance system by increasing Commonwealth subsidies combined with, in 1971, the offer of higher and more certain benefits for expensive specialist services. This involved establishing, for the first time, a formal schedule of 'most common fees' and the recognition of differential fees for specialists. The Australian Labor Party had adopted a policy of compulsory insurance in 1968 and this was a major plank in its platform when finally elected in 1972. However, it was not the only Labor government health initiative. To counter increasing specialization and to, hopefully, co-ordinate health and welfare services, a Community Health Program was established, together with a Hospitals Development Program designed to correct the maldistribution of resources in the states, but which actually began with a substantial building program. Electoral endorsement of these policies was general and somewhat vague. Only the national health insurance segment had been specifically endorsed, but there was a broad community consensus as to the need for change - though not, of course, universal agreement on its details.

V.3 NATIONAL HEALTH INSURANCE - MARK I

The Labor government's program had been set out in some detail before the 1972 election. It involved:

(i) The establishment of a single Health Insurance Fund to finance medical and hospital benefits to which the whole population was entitled.

(ii) Medical coverage, based on benefits calculated at 85 per cent of the fees in a schedule negotiated with representatives of the medical profession. The maximum difference between fees and benefits was $5 for any one service. Doctors could bill the plan direct, in bulk, and accept the benefits in full settlement, or bill their patients with the benefit then payable to the patient.

(iii) Free hospital treatment in standard ward accommodation, without means test, under agreements negotiated with the States. Treatment included medical care provided by doctors appointed by the hospital. Outpatient treatment was also available without means test and without charge. Doctors providing services to 'hospital' patients were to be renumerated by salaries and sessional payments. Public hospitals continued to admit private patients, at fees agreed between the governments, and preferred accommodation was available.

(iv) Funding of the Health Insurance Fund by a 1.35 per cent levy on taxable incomes, with a matching Commonwealth government subsidy.

The program was vigorously opposed by the Australian Medical Association, which supported voluntary insurance and had indicated its firm opposition to a compulsory scheme as far back as 1968. It was also opposed by most of the private hospitals and by some of the state governments which - despite the fact that inflation was critically eroding their ability to fund public hospitals - feared a loss of independence in revenue raising, were reluctant to become involved in a public confrontation with the medical profession and were politically opposed to the federal Labor government. The issue was actively, and often acrimoniously, debated for some months until the government introduced a bill in November 1973. The bill incorporated a number of amendments to the original plan, most of which operated to reduce controls over suppliers, made a number of concessions to both medical and private hospital interests and offered the state governments an extremely generous cost-sharing arrangement for hospitals. The original scheme envisaged only compensation for fee revenue lost and additional costs, but when negotiations began the Commonwealth proposed a formula with more incentives to cost control and standardization. The states, on the other hand, successfully sought a 50 per cent cost sharing of their net deficits after the receipt of private patient fees at agreed levels. Otherwise, the principles of the original legislation remained, and the amendments made little difference to the basic structure of the scheme.

Passage of the bill was not an easy matter, because the government did not control the Senate, and the outcome - which included a dissolution of Parliament and a general election - is a fascinating piece of Australian political and constitutional history. The Health Insurance Act finally became law in July 1974 and came into operation one year later without amendment, except that the Senate (through a legal technicality) was able to prevent the imposition of a levy. Thus, funding was entirely through general taxation. The scheme was operated by a statutory Health Insurance Commission and was known by the title of Medibank.

V.4 NATIONAL HEALTH INSURANCE - MARK II

The original Medibank scheme had been in operation for less than six months when the Labor government was defeated in December 1975. The incoming government had promised to maintain Medibank but the promise was short-lived. Reforms were introduced in October 1976. Under the new arrangements, a Health Insurance Levy was applied at the rate of 2.5 per cent of taxable income with a maximum amount applying at just under the average earnings. Ironically, exactly the same impost, at about half the rate, had been refused by the same parties in opposition. Every Australian citizen was liable for the levy, which entitled him to exactly the same benefits as in the original Medibank scheme. However, any taxpayer could claim exemption by showing that he subscribed (or had subscriptions paid on his behalf) to an approved private insurance policy which provided:

(a) medical benefits identical to those in the government schedule;

(b) hospital benefits which fully covered the charges for at least shared-room accommodation as a private patient in a public hospital.

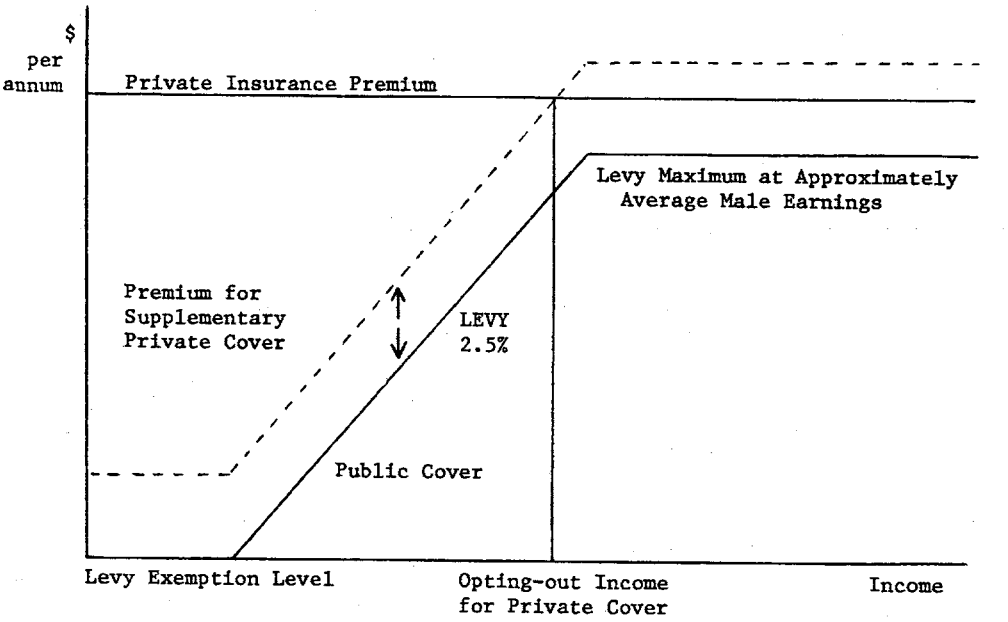
Further insurance was available (for single-room or private-hospital accommodation), but without subsidy, and had to be offered as a separate policy additional to the basic package conferring exemption from the levy. Private insurers were required to apply community rates within each state (i.e. they could not vary premiums according to age, occupation, past health experience or any other factor affecting the risk) and to accept all applicants without

discrimination. As compensation, all were participating in a reinsurance pool covering high-use members. Otherwise, they were free to set premiums and conduct their business subject only to government surveillance of their financial viability.

These provisions had the not surprising effect of creating a fairly narrow band of private insurance rates for 'standard' cover, so that the individual's choice was relatively simple. The 'opting-out' program, as it was known, preserved the major objectives of the original scheme, and offered a choice of insurer, although the practical effect of the latter was really little different to the earlier, simpler plan. Insurance was universal and compulsory, the main effect of the opting-out provision being to offer the higher-income groups private in-hospital care at a somewhat lower cost than would otherwise apply, and so induce them to take out wholly private cover. Reduction in the size of the public sector was a major objective of the incoming government, and the revised health insurance system provided a set of pseudo-market signals to achieve a distribution of business along essentially income lines. Figure V.1 illustrates the interaction. Because the levy rate and the private insurance premium together determined the income level at which opting-out became cheaper than public cover for those desiring private, fee-for-service medical care in hospital, the system was obviously manipulable. In fact, it was designed to produce about 50:50 division of business between the public and private insurance sectors, and this was almost exactly achieved despite the variety of factors in addition to income which influenced each individual's choice.

Figure V.1

COST OF HEALTH INSURANCE COVER, BY INCOME, 1977



Medibank Mark II, as it was popularly known, operated from September 1976 to October 1978. It certainly reduced the total Commonwealth payments, though it is clear that retention of the original scheme with a (lower) levy would have actually reduced the Commonwealth government *deficit* by more. Concurrent with these changes, there was a scaling-down of the community health program in real resource terms, and moves to merge the hospital development program with the general capital works program of the states. Mark II proved workable, although its administration was often unnecessarily complex and there was some criticism of the association between income and the choice of private insurance encouraging dual standards of health care. Its termination appears to have been motivated partly by a desire to reduce Commonwealth responsibilities but mainly to take advantage of a quirk in the way in which health service charges entered calculation of the Consumer Price Index used for wage indexation in this country. Given the importance of wage adjustment in macro-economic policy, some disruption to the health services financing system seemed a small price to pay.

V.5 FURTHER AMENDMENTS

From November 1978 the health insurance levy and the compulsion to insure were abolished. The Commonwealth government would henceforth provide medical benefits of 40 per cent of schedule fees (with a maximum gap of $20 per service) without the need to insure and payable either directly to uninsured people or through the benefit funds to those who chose to take additional private cover. Benefits at the Medibank I level (85 per cent of schedule fees) were retained for age pensioners, and for disadvantaged people the government paid benefits equal to 75 per cent of schedule fees, provided that doctors agreed to direct bill the Department of Health and accept benefits in full settlement of their accounts. The definition of 'disadvantaged persons' was left vague and at the doctors' discretion, but was broadly intended to cover the unemployed and non-aged social service beneficiaries. Access to public hospital treatment without charge or means test, which had been introduced in Medibank I, was also retained. The system was, in fact, conceptually similar to Medibank I except that the level of general benefits was lower, methods of payment were different and the image of contributory national insurance was abandoned with abolition of the levy.

The problem with this third variation was that it actually increased Commonwealth outlays a little, and threatened the viability of the private insurance funds. The combination of access to free specialist care through public hospitals and a 40 per cent benefit for out-of-hospital medical treatment reduced the attraction of insurance to many people (although the decline in membership was slow) and hence increased adverse selection and its effect on the underwriting experience of funds. The system was therefore changed yet again, from November 1979, by replacing the general benefit of 40 per cent of schedule fees with a government subsidy - again paid directly or through the funds - of all the excess over $20 per service up to the schedule fee. Higher benefits for pensioners and the 'disadvantaged' remained, and access to free public hospital treatment was retained under the federal-state agreements which run to the end of 1980. Charges were placed on some hospital out-patient services, however, and there has been widespread speculation that the current federally-sponsored inquiry into the hospital system may recommend the reintroduction of in-patient fees and means tests. Most of the Commonwealth-state hospital agreements are due for renegotiation and the Commonwealth is certain to press for modification of the 50 per cent cost-sharing formula. At the time of writing (May 1980) its replacement is not clear. Both the Commonwealth and state Departments of Health see the agreements as part of health policy and will press for their continuation outside the general federal-state financial framework, whereas their Treasurers are likely to take the opposite view and will find political support within the federal government.

V.6 RESULTS

The sparsity of data, the rapidity of change and the fact that most statistics are derived from secondary sources subject to administrative variation, make it extremely difficult to assess the effects of different financial arrangements. Little information is available post-1979; so that we can say virtually nothing about the results of the 1978 or 1979 changes to the system. The broad effects of the first two variants of national health insurance can, however, be identified. Though the distinction is by no means precise, it is convenient to consider the data separately; first the 'macro' data relating to total expenditures, financing and utilization, and the 'micro' data concerned more with questions of composition and behaviour.

Macro data

(a) *Current health expenditures*

The growth of current health expenditure is shown in Table V.1 for the triennial years 1969-70 and 1972-73, and for individual years from 1974-75 to 1978-79. As can be seen current health expenditures grew from 5.1 per cent to 7.4 per cent of Gross Domestic Product (GDP) with the largest increase in the 'Medibank' year of 1975-76.However, the size of the increase is somewhat misleading in that the relationship of health expenditures to GDP depends as much on the growth of GDP as on that in health spending. The latter tends to fluctuate much less than growth in, say, manufacturing industry, the slowdown of which since 1974 has been responsible for much of the rise in health expenditure relative to GDP. Second, a relatively greater rise in prices and costs within the health industry compared with other industries meant that the growth in real resource use was much less than indicated.

Table V.2 shows the results of an approximate deflation of the main items in Table V.1 compared with constant price estimates of GDP as shown in the National Accounts. Whereas the current price figures show an increase of 45 per cent in the share of GDP attributable to health services, constant price estimates show a much more modest rise. The available price indexes almost certainly understate the real cost increase, but even on this basis nearly half of the current price increase appears to have been due to 'excess' price and cost inflation. In particular, the very rapid increase in 1975-76 is shown to have been largely a price effect - not surprising, in view of a 33 per cent rise in medical fees in that year.

Overall, the rise in health expenditures relative to GDP has slowed in recent years, mainly because the rise in institutional costs has slowed. We will examine some factors influencing this later.

(b) *Financing*

Because the main changes in financing have affected only general hospitals and medical services, the figures in Table V.3 are highly summarized.

In hospitals, the changes of 1975-76 have not been reversed. The reduction in private finance followed the removal of charges previously levied on public ward patients in all but one state (Queensland), and the substantial reduction of other charges. The changed share of the Commonwealth and state governments is obvious; prior to 1975-76 the Commonwealth's contribution through hospital benefits was small and declining as a proportion, whereas the states, reluctant to increase fees with rising costs, were facing a growing problem. For the term of the current cost-sharing agreements, these proportions will remain. By comparison the states appear to have been the largest beneficiaries of health financing changes in the last decade; were they to meet the same proportion of public hospital costs as in that year, their current obligations would rise by

Table V.1

CURRENT EXPENDITURES ON HEALTH SERVICES, AUSTRALIA, 1969-70 TO 1978-79
$ million

	1969-70	1972-73	1974-75	1975-76	1976-77	1977-78	1978-79
Institutional Care							
General Hospitals Public	534	771	1,421	1,866	2,179	2,559	2,790
Private		95	188	248	276	324	362
Mental Hospitals	80	120	192	233	295	333	374
Nursing Homes	103	180	311	378	457	516	556
Other Institutional	30	40	78	105	128	154	197
Total Institutional Care	748	1,206	2,190	2,830	3,335	3,886	4,279
Other Medical Care							
Medical Services	250	400	570	849	1,035	1,176	1,277
Dental and Other Professional Services	104	157	205	253	355	384	472
Medicaments	290	398	562	616	620	678	709
Other	62	83	192	269	370	423	457
Total Other Medical Care	706	1,038	1,529	1,987	2,380	2,661	2,915
Public Health	68	89	130	142	186	191	213
Teaching and Research	n/a	40	79	101	44(a)	54(a)	52(a)
Total	1,522	2,373	3,928	5,060	5,945	6,792	7,459
Total as % of GDP	5.1	5.6	6.5	7.2	7.3	7.4	7.4

(a) Excludes Teaching

Sources: (i) 1966-67 to 1975-76: J.S. Deeble, *Health Expenditure in Australia 1960-61 to 1975-76*, Health Research Project, Australian National University, Canberra, 1978, Table 1, Table 2.
(ii) 1976-77 to 1977-78: Commonwealth Department of Health, *National Health Account - A Study*, AGPS, Canberra, 1978, Table 8.
(iii) 1978-79: Commonwealth Department of Health, *Australian Health Expenditure 1974-75 to 1978-79: an Analysis*, AGPS, Canberra, 1981.

Table V.2

HEALTH EXPENDITURES IN CONSTANT PRICES AS PERCENTAGES OF CONSTANT PRICE GDP (1966-67 PRICES)

	1969-70	1972-73	1974-75	1975-76	1976-77	1977-78	1978-79
EXPENDITURES ($m)							
Services							
a) Institutional Care - Public Health Teaching and Research Other Medical Care by Government etc. Administrative Expenses	741	843	981	1,083	1,159	1,221	1,281
b) Medical, Dental and Other Professional Services	297	371	389	413	465	508	520
c) Medicaments and Appliances	305	358	442	465	n/c	n/c	n/c
Total:	1,343	1,572	1,812	1,961	2,053	2,199	2,310
Total as % of GDP	5.1	5.1	5.6	5.9	6.0	6.2	6.3
Deflators for:							
a) Implicit price deflator for public spending on Health and Social Security	1.19	1.64	2.57	3.01	3.36	3.63	3.85
b) Medical Fee Index	1.19	1.50	1.99	2.67	2.85	3.07	3.25
c) Average Cost per Prescription Index	1.03	1.20	1.43	1.50	1.65	1.70	1.79

n/c = not comparable because of differences in definition

Sources: Health Research Project, *Research Report No. 1, op. cit.*, Table 5.
Commonwealth Department of Health, *Australian Health Expenditure 1974-75 to 1978-79: an Analysis, op. cit.*
Australian Bureau of Statistics, *Australian National Accounts, National Income and Expenditure*, Canberra Annual, various issues.
Report of the Pharmaceutical Manufacturing Industry Inquiry, AGPS, 1979, Table 12.3.

Table V.3

FINANCING OF SELECTED HEALTH SERVICES, 1969-70 TO 1978-79, PERCENTAGE COMPOSITION

	Government			Private			
	Commonwealth	State	Total	Insurance	Recipients	Other	Total
General Hospitals							
1969-70	21	49	70	21	7	2	30
1972-73	16	50	66	22	9	4	34
1974-75	13	55	67	26	3	3	33
1975-76	41	36	77	16	3	5	23
1976-77	43	35	77	18	2	3	23
1977-78	43	33	76	19	2	3	24
1978-79	43	33	76	19	2	2	24
Medical Services							
1969-70	34	-	34	26	39(a)	-	66
1972-73	50	-	50	27	17	6	50
1974-75	46	-	46	36	11	7	54
1975-76	86	-	86	4	10	-	14
1976-77	56	-	56	32	9	3	44
1977-78	34	-	34	52	8	5	65
1978-79	43	-	43	38	14	5	67
All Health Services							
1969-70	30	24	55	14	31(a)	1	45
1972-73	31	25	57	14	27	3	43
1974-75	30	31	61	17	19	3	39
1975-76	50	22	72	9	17	2	28
1976-77	43	22	65	17	16	2	35
1977-78	39	22	61	21	16	2	39
1978-79	37	23	60	20	17	3	40

(a) Includes payment for workers compensation and third party motor car insurers

Sources: Deeble, J.S. and Scotton, R.B., 'Health Services and the Medical Profession', in K.A. Tucker (ed), *Economics of the Australian Service Sector*, Croom Helm, London, 1977, p. 323.
Commonwealth Department of Health, *Annual Report 1972-73*, AGPS, Canberra.
Commonwealth Department of Health, *National Health Account - A Study*, *op. cit.* *Australian Health Expenditure 1974-75 to 1978-79: an Analysis*, *op. cit.*

nearly $600 million. However, the high state share in 1974-75 was atypical. Maintenance of a 50 per cent contribution would have required an increase in fees of nearly 50 per cent by 1975-76, so that the other beneficiaries were, somewhat ironically, the private patients.

In medical services, the main feature was, of course, the large lift in direct Commonwealth payments in 1975-76 - almost wholly a transfer from insurance funding - and its complete reversal by 1977-78. Overall, the Commonwealth government met, in 1978-79, nearly $550 million more than its obligations would have been under the stable pre-1975 proportions, but $600 million *less* than if Medibank I had continued. Such a sum could only have been raised by a levy or similar tax device, and in its absence the budget-dominated contortions of recent financing policy are perhaps more understandable.

V.7 PRICE, COST AND UTILIZATION FACTORS

(a) General hospitals

Table V.4 shows capacity and output statistics for general hospitals over the period 1966-67 to 1978-79 and Table V.5 compares movements in average costs per bed-day in different institutions. As can be seen in Table V.4, bed availability and bed occupancy in the *public* sector have actually declined relative to population, particularly since the peak of 1975-76. Private hospital use has increased (paradoxically, the largest increase was in the Medibank year, 1975-76) but bed utilization has fallen a little overall. However, the admission rate has risen considerably, equivalent to an increase in patient throughput per bed of nearly 20 per cent.

The rise in hospital costs has been extraordinary and by far the largest contribution to growing health expenditures. The reasons are not well understood. Up to 1975-76 - particularly between 1973 and 1976 when the largest increases occurred - the major factor was an economy-wide realignment of female to male wage relativities to which health institutions, as major employers of female labour, were particularly vulnerable. Cost movements in nursing homes, where technological change is minimal, are a measure of this factor. As can be seen, cost increases were much greater in hospitals and the gap is continuing to widen. Availability of funds does not appear to be an obvious factor, since the cost rise in private hospitals - which do not participate in cost-sharing - has been very little different from that in the public sector.

(b) Medical services

Table V.6 shows statistics of the estimated numbers of services for which doctors were paid in the triennial years from 1960-61 to 1972-73 and for 1974-75, 1975-76 and 1976-77. Because methods of reporting have changed, no estimates of the total volume of services, or average costs, are possible for 1977-78. In this table, the series is extended back to 1960-61 because the period from 1966-67 represented a significant change in trend. Up to that time, the average number of services per head of population rose by about 0.3 services per person in each of the first two triennia, whereas the absolute increase approximately doubled after 1967 and the rate appears to have been even greater in 1976-77. To some extent, this growth is a false measure of real service volume; the proliferation and sub-division of items in the fee schedule inevitably increases the number of separate items of service charged for. However, the important point is that the change in trend occurred between 1966-67 and 1969-70, coinciding with the introduction of an official fee schedule and *not* with the introduction of universal health insurance. As has been pointed out elsewhere, the rise appears to have been less in GP services than in specialist services - around 20 per cent in GP services per head between 1967-68 and 1976-77 compared with 66 per cent in specialist care - but the data for 1976-77 are not sufficiently reliable for this type of analysis to be extended.

Table V.7 compares, in index form, movements in average costs per service with those in average weekly earnings, consumer prices, and the scheduled or standard fees in which medical benefits are based. Over the whole period, average costs per service moved broadly in line with average weekly earnings, but since doctor productivity (measured by average numbers of services charged for) rose by over 20 per cent, the effect was a very large rise in doctor incomes (see Table V.8). Two further points should be made. First, throughout the period, but particularly since 1970, there has been an increasing divergence between the movement in schedule or standard fees, and average costs per service. While this to some extent reflects over-schedule billing, there is another, equally important factor. Upward fee 'drift' is a feature of all fee-for-service remuneration systems, as the introduction of more optional items and the effects of technical progress complicate the fee schedule. The 1974 subdivision of GP fees into short, standard and prolonged consultations is a

Table V.4

PUBLIC AND PRIVATE GENERAL HOSPITALS: CAPACITY AND OUTPUT STATISTICS, 1969-70 TO 1977-78

Year (30 June)	Beds per 1000 population			Occupied Bed-Days per 1000 population			Admissions per 1000 population		
	Public (a)	Private	Total	Public (a)	Private	Total	Public (a)	Private	Total
1970	5.35	1.1	6.45	1,381	256	1,637	141	35	176
1973	5.30	1.2	6.50	1,386	274	1,660	147	n/a	n/a
1976	5.38	1.3	6.68	1,384	326	1,710	151	42	193
1977	5.25	1.3	6.55	1,367	318	1,685	152	42	194
1978	5.21	1.3	6.51	1,320	307	1,627	151	42	193
1979	5.28	1.3	6.59	1,313	298	1,611	152	42	194

(a) Includes Repatriation and Defence Institutions

Sources: Health Research Project, *Research Report No. 1, op. cit.*, Table 11.
Health Insurance Commission, *Annual Reports* 1976-77, 1977-78.
Commonwealth Department of Health, *Annual Reports*, 1976-77, 1977-78, 1978-79, AGPS, Canberra.

Table V.5

HOSPITALS AND OTHER INSTITUTIONS: AVERAGE COSTS PER OCCUPITED BED-DAY, 1969-70 TO 1977-78

Year (30 June)	General Hospitals (a)				Mental Hospitals		Nursing Homes	
	Public (a)		Private					
	Actual $	Index	Actual $	Index	Cost $	Index	Cost $	Index
1970	27.5	140	n/a	n/a	n/a	n/a	7.3	146
1973	42.4	216	n/a	n/a	13.9	235	10.5	209
1976	94.2	481	57.3	524	28.3	480	21.0	418
1977	118.0	602	67.2	616	n/a	n/a	24.5	489
1978	137.5	701	74.1	680	n/a	n/a	26.8	536
1979	153.0	781	n/a	n/a	n/a	n/a	n/a	n/a

(a) Includes Repatriation and Defence Institutions

Sources: Health Research Project, *Research Report No. 1, op. cit.*, Table 1, Table 13; Tables V.1, V.4.

Table V.6

ESTIMATED PRIVATE MEDICAL SERVICES, 1966-67 TO 1979-80

Year	Insured Persons (m)	P.M.S. Pensioners (m)	Others (a) (m)	Total (m)	Av. Cost per Service $	Services per Capita (No.)
1960-61	20.1	7.0	8.0	35.1	2.91	3.31
1963-64	24.3	7.4	7.8	39.5	3.22	3.58
1966-67	29.3	8.2	8.0	45.5	3.87	3.89
1969-70	38.1	9.6	7.0	54.7	4.55	4.39
1972-73	47.9	11.1	6.4	65.4	6.12	4.92
1975-76	73.7	-	2.5	76.2	11.14	5.50
1976-77	75.8	-	4.5	80.3	12.40	5.70
1979-80	54.3	20.3	20.6 (c)	95.2	14.30	6.58

(a) Includes Repatriation Local Medical Officer service, workers compensation and third party motor car accident services, contract services and services not eligible for benefit.
(b) From 1 July 1975 the Pensioner Medical Service was amalgamated with Medibank.
(c) Includes Disadvantaged persons 4.0 million; Uninsured persons 12.0 million; and Other 4.6 million.

Sources: Health Research Project, *Research Report No. 1, op. cit.* Table 19. Hospitals and Health Services Commission, *A Discussion paper on Paying for Health Care,* AGPS, Canberra 1978. Commonwealth Department of Health, *Annual Report*, 1980-81, AGPS, Canberra. Table 103.

Table V.7

PRIVATE MEDICAL SERVICES: AVERAGE COSTS PER SERVICE, MEDICAL FEE INDEX, AVERAGE WEEKLY EARNINGS AND CONSUMER PRICE INDEX, 1966-67 TO 1976-77 (1966-67 = 100)

Year	Av. Cost per Service Index	Medical Fee Index	Av. Weekly Earnings Index	Consumer Price Index
1966-67	100	100	100	100
1969-70	118	119	123	109
1972-73	158	149	164	130
1975-76	288	266	274	193
1976-77	320	285	308	220

Sources: Table V.6; Health Research Project, *Research Report No. 1, op. cit.*, Table 21.

Table V.8

PAYMENTS FOR PRIVATE MEDICAL SERVICES
$ million

Year Ended 30 June	Estimated Total Payments	Taxation Statistics Gross Business Income of Doctors
1967	176	182
1970	249	240
1973	400	388
1975	570	565
1976	849	842
1977	1,035	n/a

Source: Table V.1; Health Research Project *Research Report No. 1, op. cit.*, Table 18.

case in point, as are the difficulties of adjusting fee relativities when what was once esoteric becomes routine or (as with some pathology) a technical, even mechanical, function. The second point is that the very large rise in doctors' business incomes in 1975-76 was partly due to purely financial factors of a 'one-off' nature, associated with the accelerated payment of accounts, and is not consistent with recorded price and volume movements in services actually rendered in that year.

V.8 THE MICRO DATA - INSURANCE COVER AND THE USE OF HOSPITAL SERVICES

In 1974-75, about 85 per cent of the population was entitled to some form of cover against medical expenses, either through insurance or through the Pensioner Medical or Repatriation schemes. Coverage against hospital expenses was a little higher at about 86 per cent. The *level* of hospital insurance cover was not well documented. It was estimated, several years earlier, that some 27 per cent of all privately insured persons held cover against public ward fees only but the proportion had probably dropped a little by 1975. The 14-15 per cent of the population who were uncovered were known to include, disproportionately, low-income people, migrants and single males but their use of health services was not separately recorded.

From July 1975, medical insurance membership (now limited to 'extras' and the gap between government benefits and fees) fell considerably - from 4.2 million contributor units at 30 June 1975 to 2.0 million units a year later. Hospital insurance did not fall dramatically. Hospital fund membership declined by 20 per cent to 3.5 million units, a decline very similar to the proportion of members previously holding public ward insurance only.

The second variant of national health insurance offered more clear-cut choices. On the medical side, its immediate effect was a large rise in insurance. By 31 March 1977, membership in the basic 'opting-out' table had risen to 3.0 million units (a claimed coverage of 55 per cent of the population) but on the hospital side membership of the equivalent basic table was only 3.6 million units (or 64 per cent of the population), little more than under Medibank I. A year later - by 31 March 1978 - hospital fund membership had risen to a claimed 66 per cent of the population and medical coverage to about 57 per cent. The most recent figures, from an Australian Bureau of Statistics survey, show a slight decline to September 1979 and anecdotal evidence suggests that the figures may now have further declined by 1-2 per cent. The changes are small but, if they represent a loss of good-risk members, they are of considerable importance for fund viability.

Hospital use and patient status

The introduction of defined 'hospital patient' status was probably the only feature of the 1975-76 changes of any direct significance for the structure of health service delivery. Whereas the medical care of public patients had, in most states, depended on the relative informality of the honorary system, the 1975 legislation which abolished fees for hospital patients also required the payment of doctors through formal contracts. Because the conditions of medical service to hospital patients were, and remain, the major sources of disagreement with the medical profession, the extent to which entitlement has been translated into actual availability and use depends largely on the attitudes of that profession. The take-up of free hospital care is therefore a measure of outcome, but not a direct indicator of the preferences of either producers or consumers.

Table V.9 shows the division of bed-days between 'hospital' and 'private' patients, by states, in public hospitals in 1975-76, in the first quarter in which Medibank Mark I operated in each state, in the last quarter in which it operated - the September quarter of 1976 - and in the last quarter of 1976-77. Changes in S.A., W.A. and the territories have to be estimated because formal public status did not exist before 1975.

The pattern is an interesting one. In all states except Queensland and Tasmania (where public treatment had always been available), the initial effect of extended entitlement was to increase the proportion of 'hospital patient' days by only a little over 4 per cent, equivalent to about 3 per cent for all hospital patients. The subsequent movement was about 1 per cent per quarter, except, again, in Queensland and in New South Wales where the medical profession's opposition was greatest. After nine months of Medibank Mark II, the position had reverted to almost exactly the same as in 1975-76. Since then, the proportion of 'hospital patient' days has again increased slightly, but all of the changes were relatively small and much less than were projected by many people at the time.

V.9 DOCTOR BEHAVIOUR

While all of the evidence, here and overseas, suggests that financial incentives have much more impact on producers (whose livelihoods are affected directly) than on consumers, very little 'hard' data are available. The only purposeful study of the reaction of doctors to changed financing systems is that reported by Richardson and Phillips (1977) following the introduction of Medibank Mark I. This was a mail and telephone survey of doctors in the Sydney area, using a questionnaire developed by Enterline et al. (1973) as modified after consultation with the NSW Branch of the Australian Medical Association. In stage 1, conducted in June 1975, 303 doctors were interviewed: stage 2, conducted exactly 12 months later, covered 293 doctors. After standardizing for sample composition the following results were obtained.

Hours of work per week	
G.P.'s	- no change
Specialists	- reduction of 3.3 hours to 53.7
Numbers seen	
G.P.'s	- increase of 11 per cent
Specialists	- no change
Length of patient contact (G.P.'s only)	- reduction of 8 per cent

Table V.9

PERCENTAGE OF 'HOSPITAL PATIENT' DAYS IN PUBLIC HOSPITALS BY STATES

Date	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.	N.T.	A.C.T	Australia
1974-75 1st quarter	46.0	48.0	81.0	56.0(est)	62.0(est)	91.0	86.0(est)	22.0(est)	55.2(est)
Medibank I	50.5	54.1	81.2	61.5	68.9	90.4	90.0	32.8	59.6
Change over 1974-75	+ 4.5	+ 6.1	+ 0.2	+ 5.5	+ 6.9	- 0.6	+ 4.0	+10.8	+ 4.4
September quarter 1976	50.8	57.7	81.3	64.4	72.7	93.0	92.8	41.8	61.7
Change over 1974-75	+ 4.8	+ 9.7	+ 0.3	+ 8.4	+10.7	+ 2.0	+ 6.8	+19.8	+ 6.5
June quarter 1977	45.7	48.6	79.8	63.4	56.9	91.3	81.0	29.0	55.6
Change over September quarter 1976	- 5.1	- 9.1	- 1.5	- 1.0	-15.8	- 1.7	-11.8	-12.8	- 6.1

Sources: Reports of State Health Authorities; Health Insurance Commission, *Annual Report 1976-77*, AGPS, Canberra, Table 20; data provided by the Health Insurance Commission.

Average length of queue	
G.P.'s	- increase 2.3 to 2.8
Specialists	- increase from 1.6 to 2.0
Measure of access (G.P.'s only)	
marginal complaints	- increase of 3 per cent to 24.8 per cent
pregnancy - months	- decrease of .14 to 1.3 months
needless visits	- decrease of 0.7 per cent to 2.3 per cent
delayed visits	- increase of 2.2 per cent to 5.0 per cent

marginal complaints refers to a list of marginal complaints for which patients might not consult a doctor if accessibility was poor

pregnancy month is the average month of pregnancy of women contacting a doctor for the first time about the pregnancy

needless visits and delayed visits reflect the doctor's personal assessment of these variables

The results are consistent with both overseas studies and an examination of service composition which suggests an increase of around 15 per cent in aggregate GP service output in 1975–76, but a much lower increase in specialist service use. The Sydney survey suggests that this increased service output was achieved with no increase in GP working hours, and with a fall of nearly 6 per cent in specialist hours. For GP services, the average length of patient contact declined (more for home visits than surgery consultations) and the same can be inferred from the data on specialist care. In both cases, the average length of queue (number of patients waiting) increased, but it was still small and the increase was not significant statistically. The measures of access give somewhat contradictory results: the 'objective' measures both showed improvement and doctors reported fewer needless visits, but they also considered that a higher proportion of their patients 'should have sought medical advice sooner'. Richardson and Phillips suggest a change of doctor attitudes - 'doctors may have interpreted the popular support for Medibank to mean that patients should receive more medical care' - as the most plausible explanation of this apparent contradiction.

V.10 CONCLUSIONS

The short time periods involved, and the fact that statistical systems capable of monitoring change were accorded lower priority than operational needs, make assessment of the Australian experience extremely hazardous. Judgment of the success or failure of the recent experiments is even more difficult, in view of the variety of policy objectives involved. The following classification of effects is by no means comprehensive, but it may reduce complexity by considering separately the three aspects of:

(a) effects on health service usage, costs and prices,
(b) effects in federal and state relations,
(c) effects on the public-private 'mix'.

Health service usage, costs and prices

Despite the controversy over financing, recent changes have had little effect on the delivery system, or trends in expenditures. Health costs have been steadily rising in all developed countries, at rates which appear to have less to do with financing methods than with internal incentives to output

expansion and technological progress. In this respect, the Australian structure has been virtually unaltered over the last decade. Indeed, it could be argued that since the issues have been essentially political - concerned with the distribution of power and influence between various levels of government, the doctors, the private health funds, etc. - one would not expect much enlightenment from health service statistics *per se*. These issues may of course, affect the distribution of costs between people, and the security they feel, but we have no data on this latter factor.

Within these limitations, it would seem that:

(a) The extension of hospital and medical insurance coverage to the whole population had little effect on utilization overall, but the period was too short to reach firm conclusions. In medical services, there was probably some switching from public (institutional) to private sources of supply but the statistics for public out-patient services are not sufficiently reliable for the extent of this movement to be measured. We do not know whether distribution improved, because no survey designed to elicit this information has been conducted.

(b) The change from private to public financing of medical services was certainly associated with higher costs. Medical fee increases in the two years surrounding the change were the largest on record, and had the effect of granting to the profession all of the 'unliquidated' gains allowed by the fee fixing formula but previously forgone. How long this forbearance would have persisted is uncertain, but the prospect of national insurance clearly encouraged the setting of an 'adequate' fee base. Hospital cost increases have been due partly to technology and partly to exogenous factors arising from the wage fixing system. There is no evidence that the infusion of funds through greater Commonwealth participation contributed directly to the process by weakening the resistance of hospital authorities to wage and condition claims. The rise in hospital staff earnings actually pre-dated that in doctor incomes.

(c) Apart from overall fee increases, the growth in medical services charged for, and hence in medical costs, appears to have coincided more with the introduction of formal fee schedules in 1970-71 than with any changes in financing arrangements or net patient charges. The growing complexity of the schedule appears also to have contributed towards upward fee 'drift' since that date and the process is continuing.

(d) The division between public and private care in hospitals does not appear to have been much influenced by relative price changes, at least within the range of prices applied in recent years. Levels of insurance were also extremely stable, with a high degree of risk aversion evidenced by those seeking private care, but once again the period is too short to reach reliable conclusions. It is also difficult to determine the extent to which use reflects demand (preferences) or supply factors, given the apparent stability of widely differing practices between the states.

Federal-state relations

(a) In the short run, the political weakness of the Commonwealth government allowed the states to negotiate hospital agreements on terms which offered a substantial protection against inflation without imposing any effective cost controls. The revised agreements of 1976 were only slightly more satisfactory. Cost-sharing, as opposed to allocation based on population, facilities and utilization, has been widely criticized for diluting incentives to cost minimization. This was undoubtedly true in the initial years, but appropriation of savings by the state treasuries makes this criticism less valid over time. However, an alternative to the present bargaining situation is probably desirable.

(b) In the longer run, the hospital agreements involved a significant loss of state autonomy. However, the loss can easily be overstated. Differential support of various policies is inherent in all Commonwealth subsidization. The pre-1975 system of subsidized voluntary insurance clearly favoured those states with the highest proportions of private, fee-paying patients in public hospitals, compared with states like Queensland which operated free public systems. The underlying policy was unstated and its influence was indirect and slow, whereas the imposition of specific conditions as to the availability of hospital patient treatment, fee levels and doctor-hospital relationships increased disputation enormously. Nevertheless, policy making is much more centralized in Australia than in some other federated countries such as Canada.

(c) Centralized decision making has meant centralized financing. The first attempt at national health insurance relied entirely on Commonwealth funding, and was effectively doomed by the Senate's refusal to approve the necessary levy legislation. The second version employed the private health funds as additional revenue raisers, and was less burdensome fiscally. However, the states have never attempted to develop insurance or extend the provision of services outside the traditional public health and public hospital areas, nor has any Commonwealth government sought co-operative ventures in this field. Again, the contrast with Canadian and U.S. experience is obvious.

Public-private sector relationships

(a) The coverage of any insurance system depends on the controls over prices and usage available to it. Control is greatest in salaried or pre-paid systems, least in fee-for-service systems, especially where fees are set by the private medical profession and there is no effective utilization review. The pre-1976 system coped with these problems by consciously restricting cover. Doctors were guided only by their colleagues and their conscience in fee fixing, the health funds promised no set proportional coverage of fees or total expenditures, the Commonwealth government avoided any similar commitment and the state hospitals, even when operating formal means tests, left the conditions of eligibility for public treatment deliberately vague. The 1971 reforms sought to improve this coverage by relating benefits more directly to fees, and the expectations of national insurance were greater.

(b) A formal fee schedule is a prerequisite for national fee-for-service medical insurance, and in this respect Australia was apparently well placed. However, the government could not enforce adherence to the schedule (although the states could) and AMA not only opposed it but recommended a higher schedule of its own. A fee schedule is, moreover, a highly 'political' document representing the power, influence and interests of various groups in the profession. Like most private schedules, the Australian list tended to overvalue procedures, particularly surgical and diagnostic, and so support an excess supply of specialists in these areas. Moreover, it embodied an unknown compensation for honorary work in public hospitals which varied considerably between the specialties, so that a major problem in introducing national health insurance was to avoid too large a windfall gain to both the profession as a whole and to particular branches of it.

(c) Medibank I attempted to secure adherence to the schedule by encouraging 'bulk billing', and to minimize the transfer of income by seeking salaried rather than fee-for-service remuneration for 'hospital patient' work. A subsidiary objective was to influence, by control over hospital appointments, the distribution of services both geographically and between specialties. Both policies caused considerable conflict with the medical profession. A modified form of fee-for-service was actually conceded in the smaller public hospitals, and in the latter days of Medibank I a small attempt was made to pursue other compromises. However the battle lines were then too clearly drawn, and none of the subsequent variants have seriously attempted to resolve the issue. One of the other objectives of Medibank I was to redistribute medical resources from

the larger city hospitals and affluent areas to the relativly underserviced country and suburban-industrial regions; and from specialist treatment towards primary care. In practice, the distribution of doctors, both geographically and between specialties has changed markedly from 1975-76. Since then about 66 per cent of all new doctors have entered general practice, whereas in the preceding 12 years virtually all of the increased doctor-population ratio was in the specialties. However, it is doubtful if hospital staffing policy had much to do with this reversal, compared with a rapidly increasing supply of doctors and the efforts of established specialists, through the specialist colleges, to protect their position.

(d) The modifications to health insurance policy since 1976 reflect, in addition to budgetary (and ideological) considerations, a progressive withdrawal of Commonwealth government responsibility. The original scheme and its 'opting-out' variant attempted to provide coverage which was both universal and comprehensive; the third and fourth variants reduced public coverage, first by a uniform percentage on all services and later by excluding all of the less expensive ones. The present (1980) system certainly requires less public administration, less government responsibility for such matters as fee schedule adherence, and less intervention in the delivery system. Its administration is much more expensive, however, (the total administrative costs of health insurance more than doubled between 1975-76 and 1977-78) and its ability to collect statistical information has been greatly reduced.

(e) Pre-paid health plans may offer a solution to the public-private policy conflict, but they are opposed by the medical profession and while fee-for-service insurance continues to offer security without restriction of doctor/hospital choice, the establishment of consumer acceptance will be difficult.

(f) In terms of public reaction, confusion surrounding the plethora of recent policy changes has, rather surprisingly, defused the issue. Increased private costs have been accepted without serious political consequences, partly because the Commonwealth government has apparently suceeded in blaming all of the health cost inflation of the 1970s on Medibank. Whether such a policy will continue to succeed remains to be seen.

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VI THE COSTS AND BENEFITS OF HEALTH CARE SERVICES: SOME INTERNATIONAL EVIDENCE

J.R. Richardson

VI.1 INTRODUCTION

Only a small number of statistical analyses of cross-national health expenditure has been reported in the literature. This probably reflects the obvious limitations of such studies. Comparision of aggregate statistics may conceal important differences between constituent parts, and definitions are not always comparable. As a consequence results must be interpreted with considerable caution. Despite this, there is some value in comparisons where comparable data exist. Assertions are commonly made about particular health schemes and conclusions inferred for the Australian situation. Uninformed critics of the free (at point of service) National Health Service in the UK have claimed that excessive expenditure occurs and that this is inevitable in such schemes; more informed critics have argued that the UK health expenditure is inadequate and that this is also a function of the scheme. There appears to be a consensus outside the USA that the health expenditure in that country is out of control and that this is attributable to the system. In the light of such charges the objective situation in these and other countries is worth examining.

Two questions are discussed in this chapter. The first is the reason for the rapidly increasing health expenditures in different countries, and the second is the benefit being obtained in terms of medical outcome from these expenditures. Both questions are obviously central to health policy. Between 1962 and 1974 the percentage of GDP spent on health care rose between 25 and 65 per cent in all OECD countries. Since 1974 there has been an acceleration in the rate of increase. In the USA, where expenditure is approaching 9 per cent of GDP, the value of resources expended on health care exceeds the value of goods exchanged with the rest of the world. Despite the scale of this spending, the relationship between expenditure, income, the supply of health care and the institutional arrangements adopted by a country are not well understood, and the aggregate benefits obtained from this expenditure remain largely unresearched.

The present study employs published data for 1962 and 1974. The latter were obtained from the OECD whose recent publication provides the most comparable cross-national data to date. Regression analysis is used to determine the association between income, expenditure, resource use and measurable outcome.

VI.2 INCOME, EXPENDITURE AND THE SUPPLY OF HEALTH CARE SERVICES

In an analysis of the health care expenditures of thirteen countries, Newhouse (1976) found a strong positive relationship between total national health expenditure and GDP. Four conclusions were suggested:

(i) that since the income elasticity of expenditure exceeded unity, health care is a superior good;

(ii) that contrary to popular belief, the UK health system is not cheap, nor the US system expensive, since expenditure in both countries is predicted accurately from the respective levels of GDP;

(iii) that since 90 per cent of variation in expenditure was explained by income, institutional factors and user charges are relatively unimportant in determination of total health care spending;

(iv) that since a marginal increase in health care services is a luxury good, that is, 'care, rather than cure', and since a decentralized system may be more efficient at producing this care, then the system itself may be endogenous. That is, increasing income may result in a transition to a more decentralized system.

These suggestions lead to four questions which are considered below.

1. Does increasing income really lead to an increase in the volume of resources being devoted to health care, and is health care really a superior good?

2. How important are institutional factors and user charges?

3. Is the cross-national relationship between income and resource use an 'income effect' caused by the same individual motivations that result in the income effect of consumer theory?

4. Is the health care system endogenous in the way suggested by Newhouse?

The last of these questions may be disposed of most quickly. The suggestion appears to be contradicted by the experience of most western countries. Between 1962 and 1976 both Canada and Australia have experienced extensive government intervention, culminating in the introduction of national insurance schemes. Finland, Sweden, Holland and France have all tended strongly towards greater central control, and even the USA has been on the verge of introducing a universal national insurance scheme for almost a decade. The post 1976 dismantling of Australia's national insurance scheme was largely motivated by political factors. In part, however, it was associated with the management of a declining economy and certainly was not a consequence of rising incomes. This evidence strongly contradicts Newhouse's suggestion.

The relationship between total expenditure on health care services and national income is shown in Figure VI.1. The index of income used on the horizontal axis was obtained from Kravis *et al.* (1978). The index attempts to standardize estimates of GDP per capita to allow for inappropriate exchange rates and for the different levels of exposure of domestic prices to foreign competition. It outperformed GDP statistics in all regression equations, and, as illustrated in Figures VI.2 and VI.3, results in a closer relationship between health expenditures and estimated per capita income. Consequently all the results reported here use this index, not GDP per capita.

The close relationship shown in Figure VI.1 does not (contrary to Newhouse's claim) demonstrate that increasing income is associated with increasing use of resources in the health care sector. Health services are highly labour intensive and productivity is low. In the extreme case of zero productivity, and where wages in the health sector grow at the same rate as GDP per capita, the price of health care services would also grow at this rate. Consequently, total expenditure on a fixed volume of services would grow in direct proportion to GDP per capita, yielding a very high R^2 value in regression analyses.

In order to test the hypotheses that resources devoted to health care grow with income, the conservative null hypothesis is adopted here that the price of health services rises in direct proportion to GDP per capita and that the quantity of services received remains unchanged. Consequently the null hypothesis is that the ratio of health expenditure to GDP is constant. The alternative hypothesis, that quantity rises with income, therefore implies an increasing ratio of health expenditure to GDP.

These two hypotheses are tested in regression equations (1) and (2) in Table VI.2 using different structural models. The linear model in equation (1)

Table VI.1

CROSS-NATIONAL DATA
1974

Country	(1) H/GDP %	(2) GDP per capita $	(3) INDEX	(4) DOCTORS' INCOME	(5) H.B./ 10,000	(6) DOC/ 100,000	(7) I.M./ 10,000	(8) L.E.M.	(9) L.E.F.
Australia*	6.5	5983	728	-	123	138	161	71.2	76.3
Austria	5.7	4370	595	-	114	200	235	-	77.1
Belgium	5.0	5470	684	6.3	89	176	170	70.9	76.4
Canada**	6.8	6149	853	6.8	94	165	156	72.5	78.5
Denmark	-	6030	731	5.7	98	160	115	73.2	77.7
Finland*	5.8	4662	682	5.2	149	133	102	69.3	75.8
France	6.9	5060	770	7.0	102	146	121	71.4	78.2
Germany	6.7	6200	757	8.5	114	179	211	71.0	76.3
Greece	3.5	2133	418	-	63	200	241	75.7	76.1
Iceland	5.6	5892	779	-	154	164	96	-	77.7
Ireland	6.2	2271	437	7.6	109	131	171	76.3	75.2
Italy	6.0	2710	480	9.5	105	199	226	72.6	77.6
Japan	4.0	4078	618	-	128	121	108	71.4	77.6
Luxembourg***	4.0	5950	731	-	113	102	137	-	72.5
Netherlands**	7.3	4646	575	10.2	101	155	112	73.4	78.7
New Zealand	5.5	4244	619	6.2	107	118	164	71.8	76.2
Norway	5.6	5606	686	3.4	136	165	111	73.6	78.9
Portugal	-	1300	338	-	61	117	379	-	75.3
Spain	4.8	2100	451	-	51	148	138	72.9	77.4
Sweden	7.3	6880	860	4.6	151	155	96	-	79.0
Switzerland	5.0	6724	690	-	113	169	123	73.0	78.0
Turkey	-	710	177	-	21	54	-	-	66.0
UK*	5.2	3294	606	4.5	85	131	160	71.7	77.0
USA	7.4	6600	1000	6.7	67	160	167	70.7	77.3

Key: $\frac{H}{GDP}$ = Total Health Expenditure as a percentage of GDP

INDEX = Index of National Income

DOCTORS' INCOME = Average Doctor Income as a multiple of GDP per capita

H.B. = Hospital Beds

DOC = Doctors

I.M. = Infant Mortality

L.E.M. = Life Expectancy of Males aged 30

L.E.F. = Life Expectancy of Females aged 30

* 1975 ** 1973 *** 1972

Sources: Column (1), (4), (7), (8), (9) OECD (1977)

(2) OECD (1978)

(3) Kravis *et al.* (1978)

(5), (6) UN (1976)

All variables are adjusted to the appropriate year as indicated

Figure VI.1

TOTAL HEALTH EXPENDITURE AND NATIONAL INCOME PER CAPITA

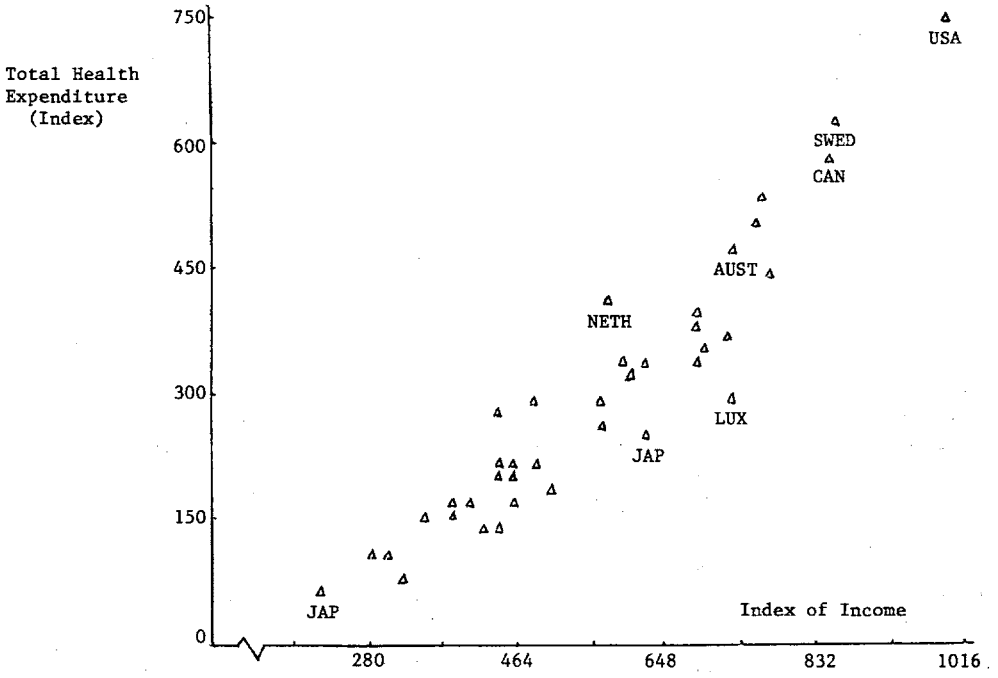


Figure VI.2

HEALTH EXPENDITURE AS A PERCENT OF GDP AND GDP PER CAPITA

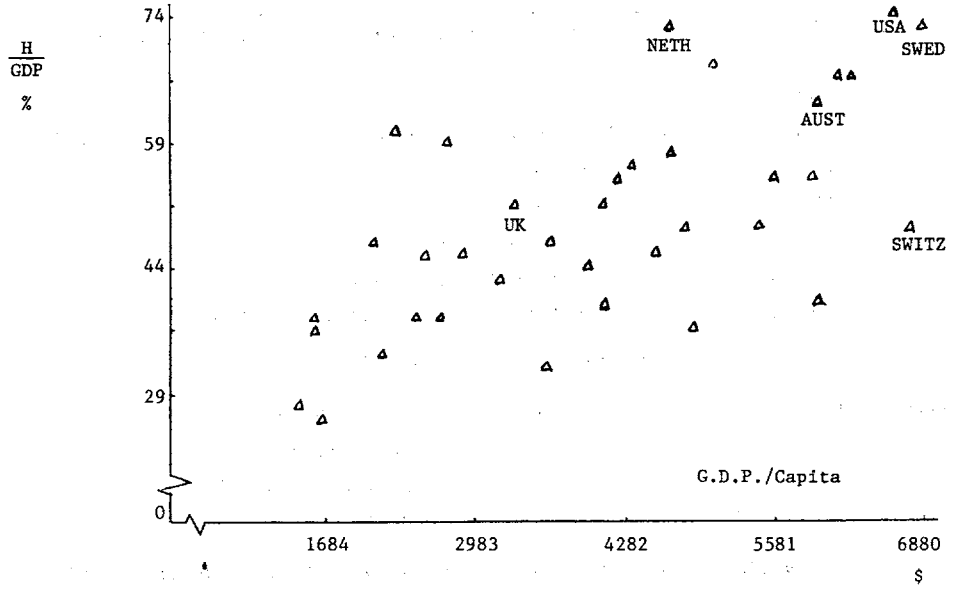


Figure VI.3

HEALTH EXPENDITURE AS A PERCENT OF GDP AND NATIONAL INCOME PER CAPITA

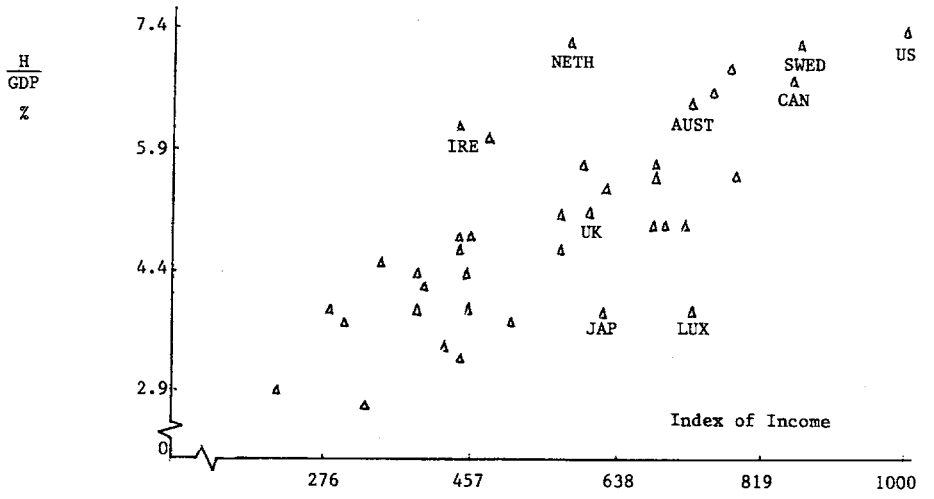


Figure VI.4

TOTAL HEALTH EXPENDITURE AND HOSPITAL BEDS PER 10,000

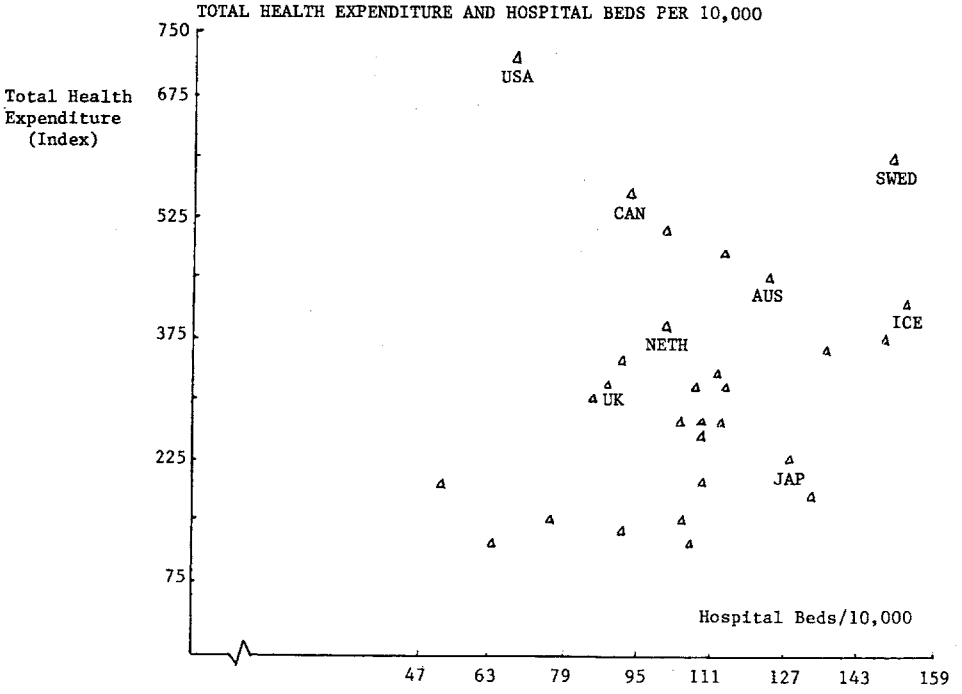


Table VI.2

REGRESSION EQUATIONS

No.	Dependent	Independents (s.e.)		n	$\bar{R}2$
1.	$\frac{H}{Y}$	INDEX .041 (.008)	DUM74 7.05 (3.17)	38	.65
2.	$Ln(\frac{H}{Y})$	Ln(INDEX) 0.44 (0.096)	DUM74 0.133 (0.065)	38	.64
3.	LnHB	Ln(INDEX) .41 .22	DUM74 -.15 (0.12)	30	.05
4.	LnHB	Ln(H.EXP) .24 .13	DUM74 -.16 (.12)	30	.05
5.	LnDOC	Ln(INDEX) .04 (.15)	DUM74 .33 (.08)	30	.41
6.	$(\frac{H}{Y})$	INDEX .039 (.011)	DOC INCOME .263 (.087)	13	.54
7.	Inf. Mort	H.EXP -.001 (.0006)		.28	. 1
8.	Inf. Mort	DUM74 -145.1 (-90.5)	DOC 1.19 (0.32)	39	.58
9.	Inf. Mort	DUM74 -77.0 (30.1)	DOC FD 0.86 0.84 (0.32) (0.38)	27	.53
10.	LEM	DUM74 (ns) DOC (ns)	INDEX -.13 (.04)	32	.43

Key: H/Y = Health Expenditure as a per cent of GDP

INDEX = Index of Income per capita

HB = Hospital Beds

DOC = Doctors

FD = Foetal Deaths

DUM74 = Dummy for 1974

H.EXP = Total Health Expenditure

LEM = Life Expectancy of Males Aged 30.

Ln = Log_e

provides the best explanation. The relationship between income and H/GDP is significant at the 1 per cent level and so the null hypothesis is rejected. At the mean, the income elasticity of H/GDP is equal to 0.43 which is almost exactly the constant elasticity estimate for the best fitting logarithmic equation. There are two major reservations with the test carried out here. Firstly, productivity in the health sector may be positive and secondly, incomes of health workers may rise more rapidly with GDP than incomes elsewhere. To the extent that the first possibility is true, the elasticity estimates calculated here will underestimate the true elasticity. The second possibility is not true for doctors' incomes in the countries where comparative information is available. The income data for doctors in Table VI.1 is uncorrelated with both the index of national income and with GDP per capita. However, the major health costs are generated by non-doctor incomes, and there is causal evidence that these, and in particular nurses' incomes, have risen more rapidly than GDP per capita. This would mean that the elasticities found here may exaggerate the true income-quantity relationship.

A further test of the relationship which is possible with the cross-national data available is to compare the actual supply of hospital beds and doctors per capita with both the index of income and with total health expenditure. Results of this comparison are shown in Figures VI.4 to VI.7 and regression equations (3) - (5). The regression analysis gives surprisingly good support for the results above. The best fitting equations were obtained by taking double logarithmic transformations of the data. The coefficients imply that the elasticity of hospital bed supply with respect to income is 0.41 and with respect to expenditure is 0.24. However, both results are only significant at the 10 per cent level and the variables explain only 5 per cent of the variation in the supply of beds. No relationship was found between doctor supply and either income or expenditure, but in contrast with hospital beds, the supply increased strongly between 1962 and 1974.

Three conclusions are supported by the results. Firstly, since hospitals and doctors together represent a very significant proportion of the quantity of health services available, the income elasticity of health services is less than 0.4. Secondly, the very close relationship between health expenditure and income observed earlier is mainly attributable to price, not quantity. Thirdly, the lower hospital bed elasticity associated with expenditure than with income implies that there is a (weak) income effect present and that an increased expenditure on health care when income is constant is associated with higher prices, not higher quantity.

The results do not imply that the income effect detected by cross-national regressions is the same income effect as discussed in consumer theory. The elasticity coefficient found here is far higher than the ones obtained from health interview data in the USA. Newhouse suggests that a difference occurs because households have no income effect because insurance has largely removed their financial barriers, but, since the full price is paid by the nation, an income effect is still present. The argument serves to demonstrate the different mechanisms which must be operating individually and nationally. Clearly the national income effect is not simply the aggregation of individual income effects. Indeed, with complete insurance, there should be no increased demand for health care emanating from individuals as income rises. Further, since individuals have greater control over their use of doctors' services than over their use of (doctor controlled) hospital services, any income effect should be more pronounced for doctor than for hospital services. In contradiction of this prediction, the results in Table VI.2 indicate that the cross-national income effect is significant only for the hospital bed supply.

The increase in the supply of both doctors and hospital beds is determined within most countries primarily by institutional factors. While these may be sensitive to political pressures and social attitudes, the relationship between these factors and national income is not well understood, nor is the institutional response to an increased availability of national resources. The

Figure VI.5

TOTAL HEALTH EXPENDITURE AND DOCTORS PER 100,000

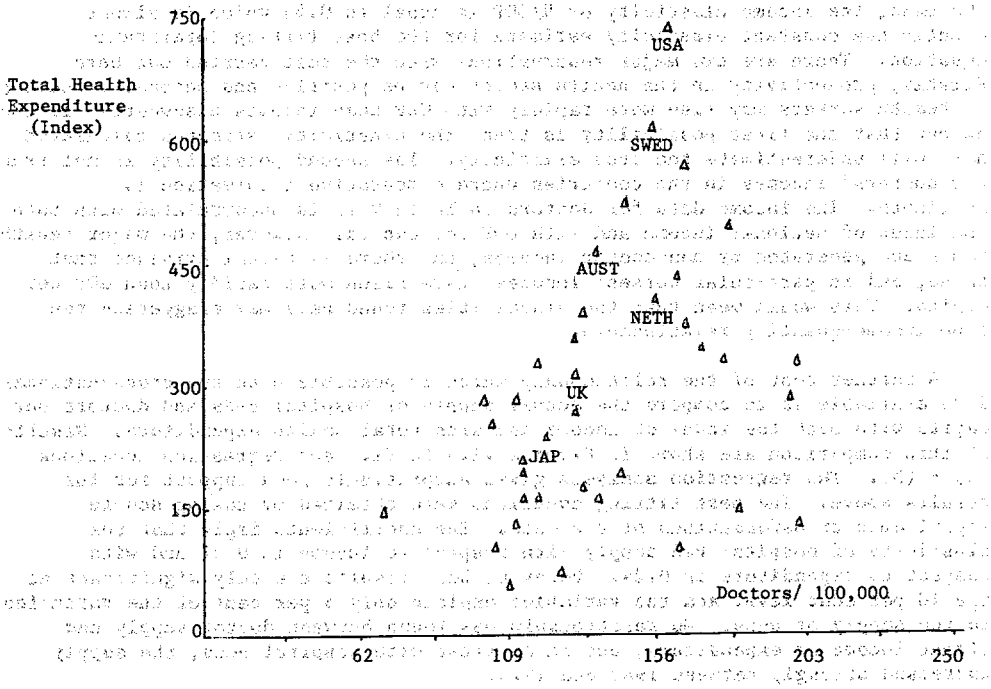


Figure VI.6 TOTAL HEALTH EXPENDITURE AND HOSPITAL ADMISSIONS PER 1,000

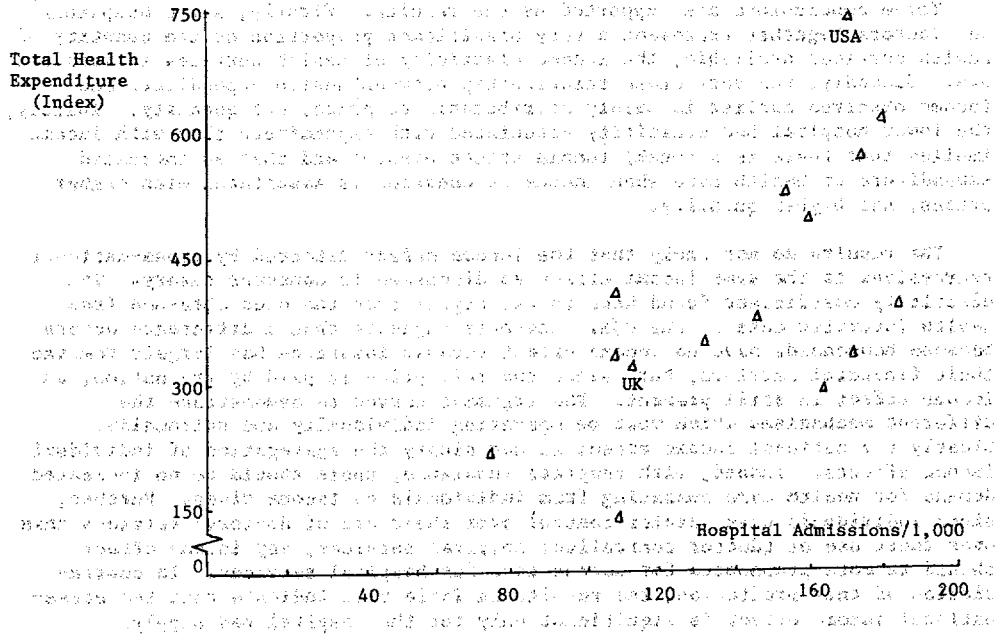
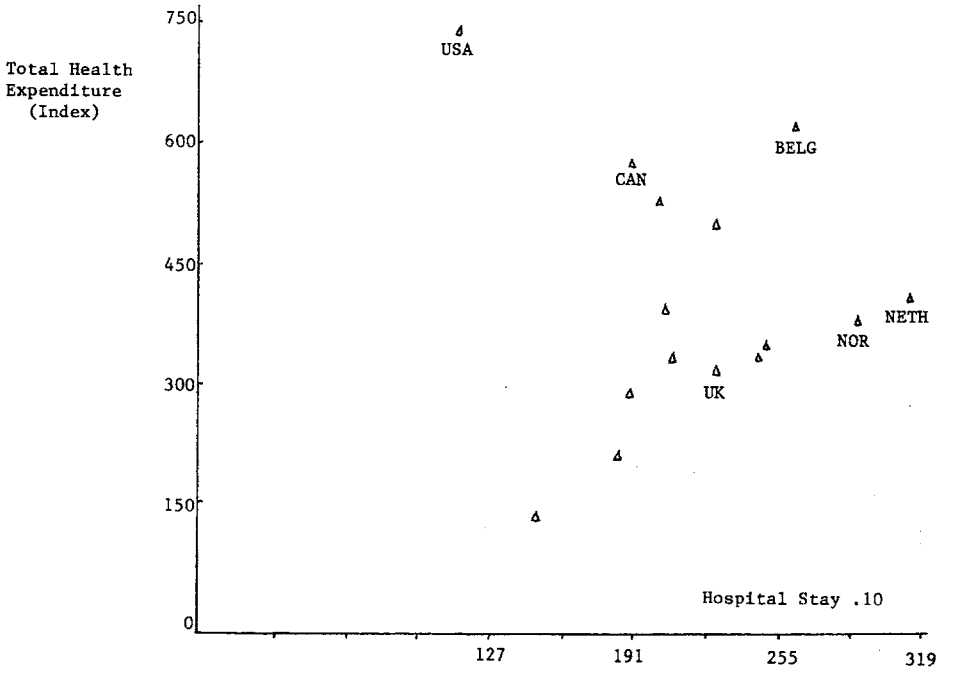


Figure VI.7

TOTAL HEALTH EXPENDITURE AND HOSPITAL STAY



result of this process is quite likely to diverge significantly from the results of unrestrained market forces.

Analysis of Residuals

The best fitting equation (equation (1) in Table VI.2) was used to generate the residual values between the actual and predicted expenditures on health as a percentage of GDP. The results are reported in Table VI.3 which ranks the countries according to the percentage by which actual exceeded predicted expenditure. In column 2 the rank is compared with Scotton's (1978) ranking when the same analysis was conducted using the same health care expenditure data but using total health expenditure per capita, a double logarithmic transformation and GDP per capita as the measure of income. The close correspondence between the ranks indicates that results are not sensitive to functional form or the measure of income. The most important difference between Scotton's residuals and those reported here is that the USA performs relatively much worse in Scotton's study. The difference is the result of the type of regression lines imposed in the two studies. In all of Scotton's equations, the predicted percentage of GDP spent on health care was constrained to rise at a decreasing rate, whereas the best fitting line here imposes a linear relationship. Since the USA has the largest income per capita of the countries in the study, its predicted expenditure in Scotton's model is necessarily lower than the predicted expenditure here. The residuals are compared below, in a fairly casual way, with the readily available information on doctors' incomes and user charges to determine whether there is any obvious relationship between cost and these two variables.

Table VI.3

ANALYSIS OF RESIDUALS FROM EQUATION 1 (Table VI.2)

(1)	(2) d	(3) Country	(4) Predicted	(5) Rank of Doctors' Income	(6) Actual − Predicted / Predicted	(7) Change in Rank 1962 - 1974
1	1	Netherlands	5.4	1	35.0	3
2	2	Ireland	4.84	4	28.0	6
3	5	Italy	5.0	2	19.6	3
4	7	Sweden	6.5	11	12.1	7
5	4	France	6.2	5	12.0	-2
6	3	Germany	6.1	3	9.6	4
7	9	Australia	6.0	-	8.5	-5
8	8	Canada	6.8	6	4.9	-4
9	6	U.S.	7.1	7	4.8	5
10	12	Austria	5.5	-	4.2	-9
11	14	Finland	5.8	10	-0.2	1
12	10	New Zealand	5.6	9	-1.0	-3
13	11	Spain	4.9	-	-2.0	-
14	15	Norway	5.8	13	-3.8	4
15	13	U.K.	5.6	12	-5.6	0
16	-	Iceland	6.2	-	-9.5	-
17	16	Belgium	5.8	8	-14.0	-8
18	17	Switzerland	5.8	-	-14.4	0
19	18	Greece	4.8	-	-26.4	1
20	-	Japan	5.6	-	-28.0	-3
21	-	Luxembourg	6.0	-	-33.3	-

d = Scotton's ranking

Doctors' income as a multiple of GDP per capita is shown in Table VI.1. The ranking of their income measured in this way corresponds very closely with the rank of the countries' residuals in Table VI.3 (column 5). Clearly a large part of the residual, unexplained expenditure on health care, is a result of the variation in the relative rates of remuneration for health care professionals. In other words, while the level of national income is unrelated to relative doctors' incomes, the relative incomes are related to total health care expenditure. This hypothesis is further tested in regression equation (6) for the 13 countries for which data are available. Despite the small sample, the coefficient for doctors' income is significant at the 2 per cent level, further supporting the view that differences in expenditure are largely a result of differences in price, not quantity.

Casual inspection of Table VI.3 does not support the view that higher user charges have been successfully employed to reduce the aggregate cost of health care. The countries with essentially no user charges - the Netherlands (for 70

per cent of the population), Canada (for most persons in most provinces), Austria, the UK, Iceland and Luxembourg - are randomly scattered throughout the table, and similarly the countries which retain fairly widespread use of co-payments (Sweden, France, Australia, Finland, NZ and particularly the US) are not concentrated at either end of the scale. This observation in itself cannot be used to draw any firm conclusion about the effectiveness of co-payments. Firstly, it is extremely difficult to classify countries according to the size of their co-payments, since the levels of user charges, where they exist, are extremely variable between items of health care and sub-groups of the population. Secondly, and more important, user charges have been reduced to such an extent in all of the OECD countries that the small cross-national variation which still exists could not be used to infer the influence of larger user charges. Even in the USA - the last stronghold of pay medicine in the OECD - the majority of the population have fairly adequate insurance against major hospital costs.

One of the most interesting policy questions is the extent to which centralized government control has been successful in reducing costs. While it is beyond the scope of this paper to attempt the treacherous task of classifying the extent of such control, two observations may be made. Firstly, the extent of government financial involvement in schemes may be a poor indicator of control. Thus, for example, while a larger percentage of expenditure is derived from the government in Sweden than in the UK, decision making in Sweden is far less centralized than in the UK. Secondly, it is widely accepted that the different percentages of GDP devoted to health care in the USA and UK may be explained in terms of the central control of expenditures in the former. The results here support the view of both Newhouse and Scotton that the differences may be largely a function of income not the organization. The analysis of residuals in Table VI.3 suggests that US expenditure is only 5 per cent above its predicted level and UK expenditure only 6 per cent below. However, until the mechanism by which a nation's income effect operates is understood, the inevitability of rising health costs cannot be demonstrated with any confidence.

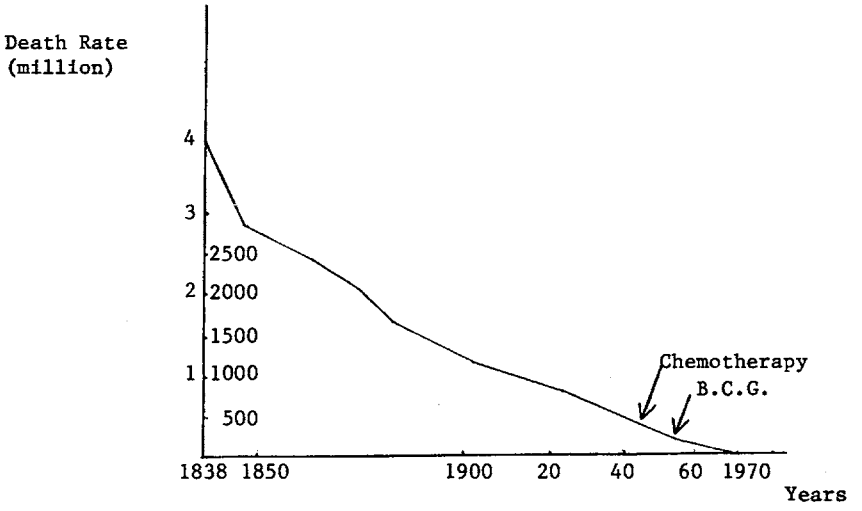
VI.3 THE BENEFITS OF MEDICAL CARE

It is widely believed that the good health of western nations depends upon the quality of health care services and that the dramatic improvements in health which occurred in the last 100 years are the result of improvements in medical science. This view is very largely incorrect. The health of a nation depends overwhelmingly upon sanitation, diet, housing and (possibly to a lesser extent) life style. The declining death rates over the last century have been chiefly associated with improvements in these factors, not with the introduction of immunization or even chemotherapy. This is demonstrated in Figure VI.8 for the UK. Most of the decline in deaths from respiratory tuberculosis, bronchitis, pneumonia and influenza had occurred before the advent of effective therapy. Similarly, for children under the age of 15, death rates from scarlet fever, whooping cough, measles and diphtheria had declined by 90 per cent before the existence of any effective form of medical intervention. There are, of course, examples of spectacularly successful intervention, but the aggregate impact of these appears to have been fairly small. The benefits of many other forms of intervention remain unproven. These include such commonly accepted procedures as universal childbirth in hospitals, TB treatment in hospitals, cervical smears, and even coronary care unit treatment for ischaemic heart disease.

It appears likely that a significant proportion of health services today can only be justified in terms of the comfort and alleviation from anxiety they may provide. However, such benefits must be compared with the negative impact of health services upon health (or in Illich's terminology, iatrogenesis). This can take at least two forms. Firstly, there is a direct risk associated with any medical intervention. Estimates from the Cornell Medical School suggest

Figure VI.8

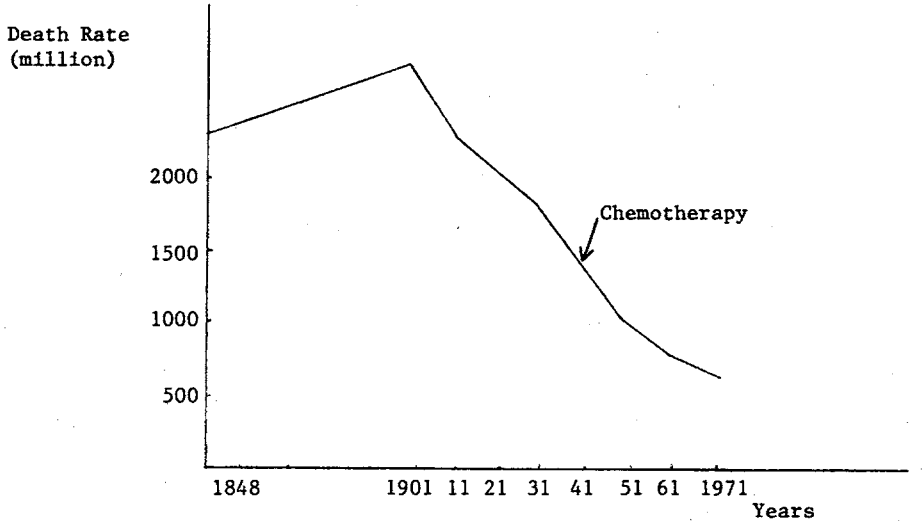
U.K. DEATH RATES: Respiratory Tuberculosis



Source: McKeown (1976), p. 81.

Figure VI.9

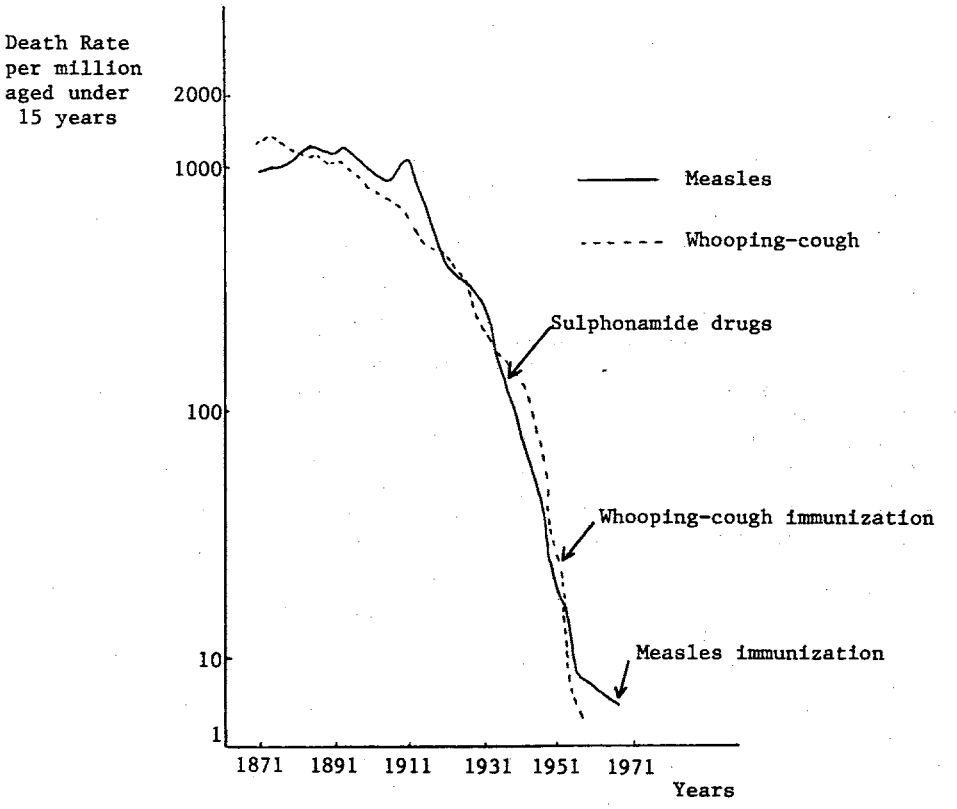
U.K. DEATH RATES: Bronchitis, Pneumonia, Influenza



Source: McKeown (1976), p. 81.

Figure VI.10

CHILDHOOD MORTALITY FROM MEASLES AND WHOOPING COUGH, 1871-1971



Source: U.K. Department of Health and Social Security (1976), p.23.

that in the USA 12,000 people die each year from operations which should not have been conducted; 22,000 US hospitals or one-third of the total are below recognized safety standards; and there is a one in seven chance of contracting an infection in hospital which the patient did not have upon admission. Further, it has been estimated that some 22,000 doctors should be immediately deregistered for incompetence and that at least 10,000 persons in the US suffer potentially fatal reactions to drugs that should not have been administered.

A second, more indirect form of iatrogenesis occurs if the population becomes so convinced of the benefits of externally delivered curative medicine that, as a consequence, self care and preventative health care measures are neglected. If the adverse effect of this self neglect are sufficiently great, they could, potentially, more than offset the beneficial effects of the marginal services. The adverse effects of dependence upon external assistance has been vividly demonstrated in another context. A recent edition of the *American Psychologist* (McCord, 1978) reported the results of a 30 year follow-up of two groups of individuals, one of which was subject to an intensive and an apparently ideal program of social work intervention and assistance. The methodology was a classic example of a random control trial. At the end of 30 years, the intervention group almost universally believed that the intervention had had highly beneficial effects upon their personal development Despite this, objective criteria demonstrated that the opposite was true. On virtually every objective criterion (rates of imprisonment, mental breakdown, divorce, and

job level attainment) the group performed more poorly than the control group. The results support the hypothesis that dependence upon external assistance may eventually have an adverse effect with respect to the target of the assistance as a result of individuals' belief that external assistance is superior to self help in areas where this is not true.

Only a very limited number of direct tests has been carried out to compare the objective indicators of health status with the supply of health care facilities. Within the USA, Auster, Levenson and Sarachek (1969) found that age-sex standardized death rates declined slightly with an increase in the overall supply of health care facilities, however, it increased with the doctor supply. Similarly, Williams (1974) found increasing rates of infant deaths with doctor supply. Across Australia, Richardson and Richardson (1982) found that both infant and total deaths initially decline with an increased use of doctor's services, but finally rise in a statistically significant way.

Cross-national comparisons of the effect of the doctor supply have one significant advantage over national studies. This is that the supply of doctors appears to be largely autonomous and determined by institutional factors. (It is for this reason that it is uncorrelated with GDP.) Cross-national comparisons between rates of infant death and doctor supply in western countries have been made by the present author (1976) using data from 1962 and 1970, by Fraser using 1965 data and by B. Richardson using 1972 data (unpublished data). The same result was found in each study. This is that an increasing doctor supply is associated with an increasing, not decreasing, rate of infant deaths. To date, no successful explanation can be found for these results except in terms of an adverse effect of the doctor supply beyond some level.

Equation 8 in Table VI.2 is the best fitting regression result explaining infant mortality with 1974 data. Once again there is a perverse coefficient for the doctor supply variable and the doctor supply explains a significant percentage of the variation in observed infant mortality. Therefore, the hypothesis that doctors have an adverse effect on the margin is again not disproven by these results. None of the other variables tested in this study were related to infant mortality at the 5 per cent significance level. These included the supply of hospital beds per capita, the level of GDP per capita and the existence of user charges on hospitals (the latter variable was positively related to infant mortality at the 10 per cent significance level).

An attempt was also made in this study to explain cross-national differences between the life expectancy of males and the life expectancy of females aged 30 since these variables are closely related to standardized death rates which are a commonly accepted indicator of health status. The only significant result is reported in the final regression of Table VI.2. This shows that the life expectancy of males falls with rising income. Neither the doctor supply nor hospital beds per capita were related to either variable.

VI.4 CONCLUSIONS

The main original conclusion of this study is that the analysis of cross-national data suggests a lower income elasticity of resource use in the health care sector than has been implied in previous studies. The best fitting regression shows a very significant increase in expenditure with income. However, since prices may be rising in almost direct proportion to income per capita, this only implies an income elasticity of resource use which is less than 0.4.

The chief defect in the analysis, as with earlier studies, is that no mechanism has been suggested to explain the cross-national income effect. It does not seem likely that it is a simple summation of individual preferences collectively expressed through the voting system. The effect may simply reflect

a common administrative view that as income rises, health care services can receive the same fraction of expenditure plus a small betterment factor.

There are no clear policy conclusions from the study. While it may be true that USA is not spending significantly more on health care in relation to the trend line than the UK, this does not imply that the UK will necessarily increase its expenditure to the US level when (if?) its income rises to the present US level. Neither do the results imply that US expenditure is 'correct' in any sense. While the costs of health care are relatively easy to quantify, the benefits are less easily measured. The information presently available supports the view that the marginal benefits of health care have a very small impact and may on balance have a negative impact on the measurable mortality. However it is possible that a reorganization of the services could change this. Further, the less tangible benefits of health care services may be sufficiently important that these alone merit their expansion.

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PART III

HOUSING

VII NEEDS, TENURE AND THE ROLE OF HOUSING ASSISTANCE

Graeme Bethune

VII.1 INTRODUCTION

Australian public housing has been heavily criticized over the last decade. One of the most important criticisms has been that housing authorities have permitted large scale leakages of assistance to the non-poor while failing to assist many of the poor. The Henderson Poverty Inquiry (1975, p. 164) found that 132,000 or 72 per cent of all income units in public housing had incomes above the poverty line, based on an income of 120 per cent of the austere poverty line before housing costs. Although they were no longer poor, these households still benefited from subsidized rents and the option to purchase their dwelling at historic cost with subsidized vendor finance. In contrast 146,000 poor income units were renting privately, paying market rents.

This criticism has been very influential. It is reflected in the terms of the 1978 Commonwealth-State Housing Agreement which introduced market-related rents, tightened up on sales and specified that assistance to those no longer in need should be minimized. These policy changes have been strengthened under the 1981 Agreement.

However, the critique of traditional housing policy raises two important questions which have received little attention: who are the needy and what level of assistance should they receive? "Most criticism of traditional housing policy fails to deal with two important questions: who are the needy and what level of maintenance should they receive"? However there is also a large group above the poverty line who cannot afford to buy and are forced to live in private rental housing. In the past public housing provided this group with an alternative with many of the advantages of home-ownership. Restricting public housing assistance to the poor will disadvantage many of this group who, while not poor, cannot afford to buy.

The second important question is: what level of assistance should be provided? Should the aim be to make public tenants as well-off as more affluent private tenants or should it be to put them in a similar position to owners? Much of the criticism implicitly takes the former position. However it is widely recognized that owning has financial advantages relative to renting, with the result that 70 per cent of Australian households own their homes. The traditional rent structures used by the housing authorities gave tenants many of the advantages of owners. However by moving to a system of market rents with rebates for the poor, public tenants will become more like private tenants.

This chapter canvasses these two issues. First the economics of renting and home-ownership are discussed. Although home-ownership has significant financial advantages it is beyond the reach of a large part of the population. Traditional housing assistance policies are then discussed. Despite their many deficiencies, these policies did provide lower income workers with an alternative to home-ownership by means of low rents and security of tenure. The policies introduced since 1978 destroy this for both new and existing tenants. Although current housing policy helps the poor, it does so at the expense of other lower income earners. Instead policies are needed which assist both groups.

VII.2 HOUSING COSTS

To understand the significance of recent changes in housing policy it is first necessary to define housing costs and to understand how they differ between private renters and home-owners. For tenants the cost of housing is simply the rent. For home-buyers the cost comprises both cash and non-cash items. The cash items are mortgage repayments, rates and other operating expenses. The non-cash item is the opportunity cost of equity which may be offset by anticipated capital gains.

Empirically, the cash expenses of recent home-buyers are generally higher than those of private tenants with similar incomes. This applies even if the costs of recent buyers are limited to mortgage costs and the gap widens if operating costs and the opportunity cost of equity are also included (Neutze and Kendig, 1979).

The average mortgage payments of all owners tend, however, to be substantially lower than the rents paid by private tenants with similar incomes. The reasons for this are fairly obvious. Over time private tenants can expect their rents to increase in line with inflation. This is generally what happened during the 1970s. But once a household buys, its mortgage payments generally remain constant while incomes and rents continue to rise. The difference between the buyer's cash payments and the rental value of the dwelling is the net imputed rent and it is tax-free. The net imputed rent increases over time with inflation. Capitalized it is equivalent to realizing the capital gains.

For example suppose the average house value is $40,000. The weekly cash-flow (mortgage repayments plus operating costs) required of a buyer would be approximately $75 and the total cost (including the opportunity cost) $88, assuming a 75 per cent mortgage at 10 per cent over 25 years and rates of $10 per week. The before-tax opportunity cost rate is assumed to be 10 per cent and the marginal tax rate 32 per cent.

In a depressed rental market (such as Adelaide) the rent for such a house could be as low as $55, slightly above a gross 7 per cent return. For the first-time buyer, the cost of buying would be substantially above the cost of renting. However, if rents and rates increase at 8 per cent per annum, rents will equal the buyers' cash-flow in 4.7 years. They will equal the total cost of owning in seven years. In a more buoyant rental market, the two costs would equalize even more quickly. Of itself, the difference in the pattern of housing costs over time for renters and buyers during periods of inflation does not necessarily mean that one form of tenure is cheaper than the other. For example, if mortgage payments were indexed, the costs of buying would remain the same in real terms while the pattern of payments over time would be much more like that of rents.

It is widely recognized that home-ownership has financial advantages relative to renting. These include the tax-free nature of imputed rent and the fact that home-owners generally pay lower interest rates than rental investors. Also if inflation rates are generally under-anticipated owners will benefit relative to tenants because the capital gains realized will exceed those anticipated in rent levels and borrowing rates. Furthermore, the advantages of owning relative to renting are usually analyzed from the point of view of households with the same incomes and assets. From a vertical standpoint, owning is better than renting in the same way that having assets is better than not having assets. If households can become owners on low deposits without paying more than they would pay in rent and without significant downside risk, they are likely to be better off financially to the extent that they receive capital gains.

Although home-ownership is widely desired, it is beyond the reach of many families. The Committee of Inquiry into Housing Costs (1978) estimated that at 1976-77 prices a single-income family on average earnings living in Sydney or

Melbourne would have had to save for 11.4-12.6 years to accumulate the deposit for a modest 110 square metres dwelling. Similarly Neutze and Kendig (1979) found that in 1976 only 10 per cent of first-home buyers in Adelaide had family incomes of less than average weekly earnings compared with 55 per cent of all families in Adelaide. They concluded that many lower and middle income families could not afford to buy. There is a large gap between the poverty line (56.5 per cent of average earnings for a couple with two children and the head working) and the threshold at which people are able to buy. Most two-income households probably have a good chance of buying, but single-income families are likely to have difficulty buying unless they have an income close to average earnings. Those with incomes below average earnings are unlikely to be able to buy without housing assistance.

VII.3 HOUSING ASSISTANCE POLICY

Significant provision of housing assistance dates from 1945 when the first Commonwealth-State Housing Agreement was introduced to provide for those who 'do not desire or are unable to purchase their own homes'. Under this and subsequent agreements the Commonwealth provided capital funds to the states at subsidized interest rates for the provision of rental housing and for on-lending for home-ownership. The history of the Agreement is described in Harris (Chapter VIII).

(a) Rental Policy

The aim of the rental program has been to provide housing for those in need at rents below those being charged in the private market. This has been achieved through Commonwealth interest subsidies and by relating rents to historic building costs. Until 1971, as Harris indicates, the interest subsidy was only 'marginally concessional'. Under the 1973 Agreement funds were provided at 4 per cent, a rate which came to appear more generous as the long-term bond rate increased. In 1976-77 the average rate owing on funds borrowed under the agreements by the South Australian Housing Trust was 4 per cent, compared to an average rate of 7.2 per cent on the state debt.

Rents were traditionally based on historic costs. They were set at levels necessary to recover total recurrent costs, including operating costs (administration, maintenance etc.) and interest payments, as determined by the original cost of building and the interest rate. In the jargon of the 1945 Agreement, these were called economic rents. Not all tenants were able to afford economic rents and were provided with rental rebates where necessary. Under the 1945 Agreement these rebates or losses were to have been met on a cost-sharing basis between the states and the Commonwealth. However in practice most housing authorities met the cost of rebates from profits made on sale of houses and by charging the better-off tenants more than economic rents.

Although some authorities based rents on the average historic cost of their whole dwelling stock, traditionally most based rents on the historic cost of each particular dwelling. This put tenants into virtually the same position as home-owners. The rent paid on a new dwelling covered the interest costs for that dwelling plus operating costs and only increased over time due to increases in those operating costs. Tenants thus received the interest subsidy plus the full surplus of imputed rent which they would have received had they bought the dwelling with a loan at market interest rates. Put another way, tenants received the benefit of interest subsidies and the capital gains accruing to the housing authority. Those receiving a rent rebate have had an additional benefit. Those not receiving a rebate have had to cross-subsidize other tenants.

As a result, the rents paid by public tenants have been similar to the payments made by home-owners. Neutze and Kendig (1979) show the close comparison between the average mortgage payments of home-owners and the rents paid by public tenants standardized by income classes, at the time of the 1976 Census. In terms of personal characteristics public tenants have also been more like home-owners than private tenants. On average, public tenants are older than private tenants. In 1976, 70 per cent of the heads of households renting publicly were aged 35 years or over. Seventy-eight per cent of household heads in owner-occupied dwellings were also in this age group but only 44 per cent of those in privately rented housing were 35 or more. Similarly only five per cent of household heads in owner-occupied and publicly rented dwellings had never married compared to 26 per cent of those in private rental.

The main difference between public tenants and owners is that public tenants have lower incomes. In 1976, 51 per cent of households renting publicly had incomes of less than $8,000 compared to 34 per cent of owners and 40 per cent of private tenants. Eighty per cent of household heads in publicly rented dwellings had incomes below $8,000 compared to 60 per cent of owners and 67 per cent of private tenants. In 1976, $8,000 was approximately 85 per cent of average earnings.

The similarities and differences between public tenants and owners can be explained in terms of the family life cycle. In the early stages of the life cycle virtually all households rent privately. Thus most of those who are married buy a home some time in their late 20s or early 30s. Publicly rented housing provides an alternative for some of those in the middle and later stages of the life cycle who cannot afford to buy. As Neutze and Kendig point out, it is quite unlike private rental housing which caters largely (although not exclusively) for those who will ultimately buy.

(b) Home-Purchase Policy

The home purchase program has contained two separate elements. Some of the housing authorities have sold their dwellings, and funds have also been lent through building societies and similar institutions. Housing authority dwellings were traditionally sold to both tenants and non-tenants at prices approximating the original capital cost. Vendor finance was provided on terms reflecting those being paid by the authorities themselves and until 1978 interest rates were fixed for the duration of the loan. There was a close relationship between sales and rental policies. Although tenants paying economic rents were in a similar position to owners, they were not able to realize their capital gains as an increase in personal wealth. Sale of dwellings to tenants at historic cost was a simple way of making tenants complete owners. It made it possible for tenants with few assets to become owners by allowing them to rent a dwelling for a period and then to use the capital gain which had accrued to the dwelling as part of a deposit.

The other nome purchase scheme has provided loans through building societies for those with more substantial deposits. Little is known about the characteristics of those who have received this assistance. It is unlikely that many of the poor (as strictly defined) have received loans. However the average incomes of borrowers have probably been substantially lower than the incomes of those borrowing privately. The Henderson Report suggested that loans in Victoria were directed at those with incomes of 120-150 per cent of the austere poverty line and Bethune (1978) found that in 1972-73 the median weekly income of a sample of Victorian savings bank borrowers was $160 compared to $80 for those receiving home purchase assistance.

(c) Objectives

Post-war housing assistance policy can best be understood as an attempt to assist low-income families directly into home-ownership or provide them with publicly rented housing on similar terms to those enjoyed by owners. In the economics literature most of the debate about housing assistance has been whether assistance should be provided in cash or in kind (Richardson, 1979). Australia has effectively been providing both alternatives since 1956 through public rental housing based on economic rents with a sale option plus loans for home purchase. Assistance was not directed exclusively at the poor but at all those likely to have difficulty buying a home. While the policies were not able to assist all those in need, they were horizontally equitable as between rental and home purchase assistance and between those receiving housing assistance and the majority of households able to purchase without assistance. In terms of the objectives of the policies there were probably some leakages of assistance. Some public tenants paid economic rents based on subsidized interest rates when they could afford to pay rents based on market interest rates. However it is difficult to measure the significance of these leakages.

The interest rates on home loans provided prior to 1978 were fixed at subsidized levels for the duration of the loan rather than varying with income. This changed with the 1978 Agreement and in South Australia the interest rates on outstanding loans were also raised by one half of one per cent for each year's duration up to the long-term bond rate.

VII.4 CRITICISMS

One of the inevitable criticisms of traditional housing assistance policy is that by trying to provide substantial assistance to all those unable to buy it did not place a high enough priority on the housing needs of the worst housed, the poor. This view was first argued by Jones (1972) and later by the Commission of Inquiry into Poverty (1975). See also Priorities Review Staff (1975), Harris (Chapter VIII), and Carter (1980).

As already noted, the Poverty Inquiry found that 132,000 (or 72 per cent) of housing authority dwellings were occupied by tenants who were not poor, while 146,000 private tenants with incomes below 120 per cent of the poverty line were renting privately. These figures clearly identified the strong inequities between public and private tenants. Professor Henderson argued that this situation arose because a large proportion of the poor are only poor temporarily (Henderson, 1978). Public housing tenants are usually means-tested on entry, but because the subsidies are tied to occupation of the dwelling rather than personal circumstances, occupants who may have been poor on entry to public housing retain possession of their dwelling after their circumstances have improved.

However this fails to recognize the fact that the means tests have generally been approximately 150 per cent of the austere poverty line. The means test in the 1973 Housing Agreement specified that for at least 85 per cent of allocations the head's income should not exceed 85 per cent of average earnings. In 1976, 80 per cent of household heads living in publicly rented dwellings had incomes below 85 per cent of average earnings. Accordingly, although the majority of tenants are not poor, most still satisfy the means test. The poor constitute a minority of public housing tenants because only a minority of those applying for public housing are poor. This is not to argue that the incomes of tenants do not increase after they enter public housing. The means test is expressed in terms of the income of the head. Tenants could experience an increase in income from the spouse returning to work and still satisfy the means test. However, because the income test for public housing is much higher than the poverty line we would expect the average current incomes of those entering public housing to be closer to their average lifetime incomes than if

consideration was restricted to the population in poverty (Cox, 1976). The Poverty Inquiry found that 28.2 per cent of those on waiting lists were poor, the same proportion as in the public housing stock. The absolute proportions of the poor have since increased, as Saunders has shown in Chapter IV.

Although only a minority of public tenants is poor, the percentage of the poor in public housing is higher than the percentage of those with incomes of 100-160 per cent of the poverty line. In 1976, 28 per cent of all tenant households with household incomes below $5,000 (53 per cent of average earnings) were in public housing while 18 per cent of tenant households with incomes between $5,000 and $8,000 (85 per cent of average earnings) were in public housing. Nonetheless some states have managed to house a larger proportion of very low income earners than others. Based on information from the 1974-75 Household Expenditure Survey, Archer (1979) has shown that 41 per cent of low income households in Adelaide were living in public housing compared to 20 per cent in Sydney and 14 per cent in Melbourne. (Archer defined low income as 68 per cent of average earnings.) However this is not because the public housing stock in Adelaide contains a higher percentage of low income earners. In Sydney and Melbourne low income earners occupied 53 per cent and 42 per cent of public dwellings respectively while in Adelaide the incidence was also 42 per cent. Rather, the larger the size of the public housing stock in relation to the population, the more low income earners are likely to live in public housing. This arises partly from the way in which public housing has been financed. It has sometimes been suggested that the housing authorities receive massive subsidies (Henderson, 1978). However the only source of direct subsidy has been the concessional interest rate on Commonwealth funds. All other subsidies to tenants must be internally financed.

Alex Ramsay expressed the difficulties faced by the authorities well in the Queale Lecture (1974, pp. 18-20):

> Let us assume there are a large number of deserted wives... [paying]... reduced rents (for public housing)... In order to balance its books the statutory corporation must make all other rents... higher in order to carry this large number of sub-economic tenants;... he has to tax the rest of his rent payers to carry the loss. As this occurs... part of the cost of social welfare, which should be paid for according to the taxing policies of the... Nation, is shifted on to a particular group, namely those full income families who happen to be living in public sector housing.

Public housing authorities have had to maintain a balance of tenants in order to remain financially viable. It is in recognition of this problem that special grants have been provided in recent years for aged and Aboriginal housing.

This is not to argue that the housing authorities have not had the potential to house more of the poor, even given their financial constraints. Although large scale housing estates on the urban fringe are an economical form of development, they may be particularly unattractive to the poor because of high travel costs. Acquiring housing on a dispersed basis in the middle and inner suburbs may have attracted more of the poor. Similarly long rigid waiting lists probably discourage the poor more than other groups and providing priority allocation to poorer tenants would have also increased their access. Finally, the authorities have varied in their attitudes to the poor and there has undoubtedly been some reluctance to house the 'undeserving poor' (Jones, 1972).

Moreover, the housing authorities could have improved their financial viability by abandoning economic rents and sales at historic costs. To many these policies have seemed muddled and wasteful. Because economic rents are less than market rents, all public tenants are subsidized, including those who are no longer poor. Tenants of long-standing may also have lower rents than newer tenants, even though newer tenants may be in greater need. Furthermore sales at historic costs make it impossible to replace dwellings when they are sold, denuding the dwelling stock. These are powerful arguments if the

objective of public housing is to improve the position of poor private tenants relative to that of better-off private tenants. However, as discussed above, if the aim of public housing is to make those with little chance of buying as well off as home-owners the traditional policies make a great deal of sense. A large part of the subsidy received by public tenants is not due to subsidized interest rates but to the capital gains passed on by the housing authority to its tenants. These subsidies are thus rather different to those provided under income support schemes in being internally financed and not paid by the taxpayer. In this context Hugh Stretton has commented:

> ...if a private home buyer [can] make fixed debt repayments in depreciating currency for an appreciating asset, and thus make fast capital gains, that [is considered to be] a market fact consistent with perfect social efficiency. But if a public tenant or borrower [gets] exactly the same deal, he or she [is] perceived as getting a socially inefficient subsidy (1978. p. 84).

Similarly, the fact that older home-owners have lower repayments than more recent buyers is well accepted, but the fact that long-standing public tenants have lower rents is thought to be inefficient. There have been leakages of assistance in rental and sales policies, but these reflect the fact that tenants have been paying rents based on subsidized interest rates when they could have paid rents based on market rates or that buyers have been paying subsidized rates. The fact that rents have been below market rents is not in itself evidence of a leakage of assistance.

Nonetheless the 1978 Housing Agreement provided that rents would be market-related and sales would be at replacement cost. Market rents are expected to generate financial surpluses and encourage higher income tenants to leave, making more public housing available to the poor. For example, as Harris indicates in Chapter VIII the Commonwealth government's attitude has been that 'too few of the poor (are) in public housing, and... more affluent tenants (can) afford to pay more'.

The main attraction of market rent policy for governments is that it is cheap. It holds out the promise of increasing assistance to the poor without increasing government expenditure. However it has a number of difficulties (see Paris (1979) for a discussion of market rent policies). Looking backward it will create inequities between those who bought their housing commission homes and those who decided to continue renting. Those who bought will at most find their interest rates increased to market levels and even this is impossible under most of the sales agreements used. Those who continued to rent will have to pay market rents. This will also create inequities between those states (such as Victoria) where large numbers of houses were sold and those such as South Australia where they were not. Market rents will also change the whole nature of housing assistance policy. In the past there was a measure of horizontal equity between those in public rental, those buying with home purchase assistance and those buying privately. However with market rents those receiving home purchase assistance will obtain greater benefits than many of those receiving rental assistance (who are likely to have the lower incomes). Both private and public tenants above the poverty line will be worse off than home-owners and many will have little chance of buying unless they are lucky enough to get a subsidized loan. Public tenants with incomes above the poverty line will also be subsidizing those below the poverty line. As Ramsay and Kemeny (1979) have pointed out, most poor public tenants receive welfare benefits, so the end result is that a small group of lower income public tenants will be supplementing Commonwealth welfare payments to the poor.

If market rents cause substantial numbers of the better-off tenants to leave public housing they will also create the social problems associated with large concentrations of low income people. These problems could be reduced by having a more dispersed public housing stock. This cannot be achieved quickly and is not costless. The market rent policy also assumes that an improved rent rebate

system will be introduced. Even if this eventuates, it is difficult to ensure a universal take-up rate with any such system.

VII.5 CONCLUSION

Post-war Australian housing assistance policy can be criticized for being too ambitious in the size of its target group and the level of benefits it has attempted to provide. As a result it has not given enough priority to those in greatest need. At the same time many of the critics of housing policy have shown little understanding of the traditional role of public housing in relation to the total housing market. They have focused exclusively on the needs of the poor and ignored other groups. To some extent the differences are between a broad distributional approach and a narrower welfare one. However these differences are not necessarily political. Conservatives are usually strong proponents of the benefits of home-ownership while the Left has traditionally espoused redistribution and cost-rent public housing. Accordingly we might expect some agreement on the broad aims of housing policy if not on the mix of public rental and home purchase assistance.

Many of those arguing for market rents and a restricted sales policy would probably support a broader redistributional policy but would argue that the resources are not available and assistance for the poor is the higher priority (Harris (Chapter VIII), and Carter, 1980). However in terms of financial feasibility, increasing assistance to the poor requires that extra resources be made available from somewhere. While it is probably easier to obtain these resources from other public tenants, a more broadly based tax would be far more equitable. Furthermore there is a scope for increasing assistance to the poor without either market rents or an enormous, open-ended increase in public funding. First, the poor could be given higher priority in allocation to public housing. Second, (and more slowly) stock acquisition policies can be changed to increase the attractiveness of public housing to the poor. Increasing the proportion of poor tenants would normally increase losses for housing authorities. However the increase in the proportion of Commonwealth funds provided as grants should limit any losses. Third, if the Home Savings Grant were more effectively targetted towards marginal buyers this would reduce the pressure on other housing assistance programs. Fourth, the more Commonwealth funds are provided as grants rather than loans, the more use can be made of these funds in subsidizing the interest costs of private capital rather than relying on public capital funds.

With imaginative use of funds it does seem possible to assist poor tenants, not only so that they are better off as tenants but so that they are in the same position as owners. Of course, the possibility of using non-government funds does not weaken the case for additional government funding. It may be that given recent levels of funding, it is only feasible for public housing to fulfil a narrow role. However it is also likely that arguments for a narrower role will themselves lead to reduced funding.

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VIII COMMONWEALTH-STATE HOUSING AGREEMENT OF 1978

W.J. Harris

VIII.1 INTRODUCTION

The 1978 Housing Agreement is the latest in a line of housing agreements with the states. Under these agreements the Commonwealth provides financial assistance to the states for the provision of housing for low income groups. The aim of this chapter is to trace the evolution of these financial arrangements, to examine the effectiveness of the program in meeting its objectives and to discuss the new Agreement with emphasis on the major changes introduced in 1978. For this purpose the earlier history and principles of the Agreement are traced.

VIII.2 EVOLUTION OF THE COMMONWEALTH-STATE HOUSING AGREEMTENT

All states were involved in housing well before the introduction of the first Commonwealth-State Housing Agreement (CSHA) in 1945. Up to that time emphasis was placed on assisting home-owners, although slum clearance was another major concern (see Pugh, 1976). Each state had initiated its own housing programs but such vital questions as the sufficiency of the housing stock and the problems of housing the poor were treated in a haphazard way.

In 1943, the then Minister for Post-War Reconstruction, J.B. Chifley, appointed the Commonwealth Housing Commission (CHC) to inquire and report upon

> 'a. the present housing position in Australia:
> b. the housing requirements of Australians during the post-war period.' (CHC, 1944)

The report of that Commission was released in August 1944 and was the first national investigation of housing and urban development issues. The Commission found widespread deficiencies in quantity and quality of pre-war housing, and was concerned at the extent of the housing shortage that existed in 1944. It expressed the view that 'a dwelling of good standard is not only the need but the right of every citizen' and felt that in order to achieve that goal, special provisions were required for the housing of low income groups (CHC, 1944, p. 8).

In brief, the report recommended

- annual construction targets;
- Commonwealth sponsoring of a government financed housing program;
- establishment of a Commonwealth Planning Authority;
- regional and town planning legislation and goals;
- land controls;
- detailed policies for administration of public housing rental dwellings.

The government responded to the report by negotiating the 1945 Commonwealth-State Housing Agreement. Under that Agreement advances repayable over 53 years, with interest at the long term bond rate, were made by the Commonwealth to the states to assist them in carrying out rental housing projects. Clause 4 of the Agreement provided for dwellings to be let at an economic rental and for the

granting of rebates to tenants who did not have the capacity to pay those rents. Rebates were calculated according to a formula based on the relationship of the family income of the tenant to the basic wage. If a dwelling was sold, the principal outstanding was to be repaid to the Commonwealth. This discouraged sales of rental dwellings.

Subject to the state observing the terms of the Agreement, there was provision for the Commonwealth to contribute three-fifths of any loss incurred in a financial year by the state in connection with the administration of its rental housing projects.

Clause 4 of the 1945 Agreement provided for each state first to establish, and then advise the Commonwealth of the minimum and maximum standards to be observed in the following matters: (a) allotments or sites; (b) accommodation; (c) construction; (d) equipment; and (e) services.

The provisions of that Agreement set in train a course of events which have an important bearing on the 1978 CSHA. By the introduction of a method of calculating an economic rent for dwellings, rebate of rent for those unable to pay the full rent, and partial reimbursement of any losses incurred on rental operations, the Agreement provided 'a plan for housing and rehousing families of the lower income group...' (1945 Bill).

Since then, there have been major changes in the operations of housing authorities under later agreements. In 1955, the requirement to pay the principal outstanding when a dwelling was sold was removed. This provision resulted in major vendor financed sales programs in all states. In 1956 the Home Builders' Account was introduced to provide mortgage finance at a concessional rate of interest to lower income households for the purchase of a dwelling. The 1973 CSHA introduced a needs test for tenants and purchasers and imposed a range of controls (e.g. 30 per cent sales limit). However rental systems remained largely unchanged from those which were established in 1945.

Since the commencement of the arrangements some $2,914 million has been advanced to the states for rental housing; 318,000 dwellings have been constructed; and as of 1978 about 30,000 households were allocated dwellings each year including transfers. About 137,000 dwellings have been sold to tenants. Advances for home purchase total $1,141 million and 160,000 loans have been made. In addition to Commonwealth and state funds advances, surpluses from both rental and home ownership operations have been generated and subsequently reinvested.

VIII.3 EVALUATION OF THE COMMONWEALTH-STATE HOUSING AGREEMENT

The Minister for Post-War Reconstruction (J.J. Dedman), who was responsible for housing, described the Commonwealth-State Housing Agreement Bill 1945 as an important piece of social legislation aimed to provide housing for the soldier and his family. It also aimed, he said, to improve the housing of workers and house the migrants being sought from overseas. Stimulus was given to state housing authorities to expand housing stock with resultant major urban expansion. This concentration on production numbers, and shelter first, was understandable under the pressure of long waiting lists and scarce resources.

Viewed in this context, the CSHA has been successful at increasing the *production* of dwellings for low income people. This construction role on the urban fringe, and in some states major redevelopment of inner urban areas by high rise development, sometimes attracted considerable stigma for public tenants. Lack of choice of dwelling type and location and frequent public criticism of housing estates remote from employment, short on community facilities, distant from or poorly served by public transport all contributed to this. Not all these problems were the sole responsibility of the housing

authorities; they were features common to private development at that time and can be traced to a failure to co-ordinate urban expansion.

The 1945 CSHA included a provision that each state ensure that adequate legislation exist to control rental housing projects, slum clearance and town planning. The states were also charged to ensure co-ordination of authorities active in these areas, and to establish land and housing standards. These provisions were not included in the 1956 CSHA as part of a general easing of restrictions, but the 1973 CSHA gave some recognition to urban policy issues. The *Urban and Regional Development (Financial Assistance) Act* 1974 was to carry the main burden of Commonwealth urban policy in the 1970s.

In the mid-1970s it was apparent that there was general concern about some aspects of public housing arrangements. Two inquiries were published in 1975 which had substantial implications for the CSHA. The Commission of Inquiry into Poverty released data indicating that:

> of the total of 183,000 housing authority tenants the total poor numbered only 51,000; 132,000 housing commission rented dwellings (72 per cent) were occupied by people with incomes more than 120 per cent of the poverty line. (1975, p. 164).

The means test set in the 1973 CSHA at 85 per cent of average weekly earnings (AWE) was between 150-200 per cent of the Henderson Poverty line, depending upon family composition. Henderson shows that 22,000 (12 per cent) fewer public tenants were poor after housing costs were taken into account than before housing costs. The issue was really that too few of the poor were in public housing, and that more affluent tenants could afford market related rents.

The state housing authorities have not seen their role as being limited to only assisting those in need, rather they have been perceived by state governments as serving a broad range of clients and state industrial development purposes. The authorities acknowledge that they are unable to assist many who are in poverty because of pressures of waiting lists, and their inability to provide extensive counselling or social support to groups such as problem tenants.

The other report was by the Priorities Review Staff which recommended that the government should:

> ... try to ensure that all public housing is rented or sold at market rates and terms ... phase out the use of privileged funds for vendor finance ... (1975, p. 101).

They suggested guarantees of minimum income, or means-tested vouchers or rebates for those in need, and borrowings by the states on open market terms. This report also focused attention on inequities in the benefits obtained through home ownership.

These inquiries drew attention to critical issues in relation to vendor finance, rental policies, the general mechanism of funding the states, and to the somewhat misunderstood fact that there are two programs within the CSHA. It was the rental program which had come in for most criticism, while the home purchase program was less controversial.

Certain criticisms of the CSHA were noted in the Liberal and National Country Party's Housing Policy Statement in November 1975. The Federalism policy of the government also contained major implications for the future of the 1973 CSHA, since that Agreement placed restrictions on state activities which conflicted with the philosophy of the Federalism policy. In early 1976 some states requested amendment of the Agreement to ease the 30 per cent restriction on the sale of rental dwellings and relax the means test for eligibility. The Administrative Review Committee (Bland Committee) was then examining public

sector administration in the context of the government's Federalism policy. In light of this examination, state pressure for amendment of the 1973 CSHA, concerns expressed in the Commission of Inquiry into Poverty and the Priorities Review Staff (PRS) 1975 Report, and the termination of this Agreement in 1978, the government decided to proceed with a review of the program. This review was to have special emphasis on its objectives, effectiveness and efficiency.

VIII.4 THE NEGOTIATION OF THE 1978 AGREEMENT

Perhaps the key issue to be resolved in the 1976 review of the program was whether to use funds specifically earmarked for housing, or to use the Loan Council mechanism, leaving the states to determine rental and home-ownership policies and decide funding priorities. It was apparent that if the Commonwealth did not provide assistance under a housing agreement which specified conditions, there was every possibility that:

- subsidies would continue to be effectively related to the dwellings and not to the particular circumstances of the individual;
- concentration on construction in the outer suburbs/urban fringe would continue;
- the number of poor being assisted would not change.

In early 1977 the then Minister, Kevin Newman, informed the states that the Commonwealth would enter into a replacement housing agreement and proposed the following objectives:

- to provide adequate rental housing for those of the community deemed to be in need of government assistance at a price within their capacity to pay;
- as a highly desirable but secondary objective to facilitate home ownership for those able to afford it but unable to gain access through the private market;
- to provide assistance for rental accommodation and assistance for home-ownership in the most efficient way; this would involve exclusion from eligibility for assistance of those not in need, minimizing leakage of assistance to those no longer in need, and the design of benefits such that assistance being provided was related to the particular family's or individual's current economic and social circumstances;
- to minimize the extent to which benefits available through the scheme were offset by poor location of dwellings, an inadequate range of choice of dwellings and stigmatization of potential beneficiaries;
- to maximize social benefit derived from previous investment in public housing and housing assistance;
- in the administrative arrangements necessary to achieve these policy objectives, the states should be able to exercise maximum autonomy and flexibility;
- there should be clear identification of the separate but complementary roles of the distribution of welfare assistance, and the construction and management of welfare housing stock;
- so far as possible to conserve public capital funds, and promote the involvement of private capital in those parts of the program which involved the provision of mortgage finance.

In a slightly revised form the objectives were incorporated into the preamble to the 1978 Commonwealth-State Housing Agreement (CSHA) as the first ever legislative statement of principles for the program. To meet these objectives Kevin Newman proposed that funds advanced for housing should be at non-concessional interest rates with subsidies to be provided in a form to be decided.

One possibility under serious consideration was that non-repayable grants be provided for rental subsidies equivalent to the amount of rebates granted to tenants. For home-ownership, non-repayable grant subsidy might be linked to the gap between a non-concessional interest rate charged by the Commonwealth to the states, and the interest rate that the borrower could afford to pay. This proposal provoked considerable criticism from some states and it became obvious during negotiations that the states regarded the proposal as too radical a change. They sought a continuation of the subsidies provided by way of interest concession on funds advanced. Until 1971, the interest rate on advances was only marginally concessional but the 1973 CSHA established a fixed concessional interest rate which became more generous under increases in the long-term bond rates between 1973 and 1976.

Negotiations resulted in the 1978 CSHA having the following main features:

- advances repayable over 53 years at interest rates of 4.5 per cent for home purchase assistance, 5 per cent for rental housing assistance;
- establishment of goals rather than prescription of needs tests;
- widening of purposes for which funds can be used;
- sale of rental dwellings for cash at market value or replacement cost;
- market related rent for dwellings, with rebates for those not able to afford the full rent;
- an escalating interest rate for on-lending home purchase funds from the state to lending agencies (5 per cent first year, increasing 0.5 per cent per annum until it reaches 1 per cent below the long-term bond rate);
- encouragement for the adoption of flexible lending techniques for home loans.

VIII.5 THE MAIN CHANGES: RENTAL POLICY

Up to 1976 most states were calculating rents for individual dwellings in the manner specified by the 1945 CSHA, although Victoria and Western Australia had established average or standard rents. In most circumstances the initial rent for a dwelling remained unaltered, except that increases for current outgoings (e.g. maintenance) were sometimes fully, sometimes partially passed on to tenants. Upon vacancy, rents were usually adjusted to reflect fully all current outgoings and bear some relationship to rents for new dwellings. These practices varied to some extent between states, housing authorities often having difficulties in obtaining approval for overall rent adjustments. Under the impact of inflation in construction costs rents for new dwellings were at a much higher level than older stock. This disparity increased dramatically in the period 1973-1976 and was reflected in the consumer price index (CPI) component for government rental dwellings, which moved from 143.4 in 1973-74 to 331.4 in December 1977. By contrast the CPI for private rental dwellings moved from 160.3 to 252.9 in the same period.

Rents for state housing authority 3-bedroom dwellings at June 1976 are shown in Table VIII.1. The range in the two types of stock reflects the movement in economic rents.

Table VIII.1

WEEKLY RENT RANGE, TYPICAL C.S.H.A. THREE-BEDROOM DWELLINGS
($)

	Pre 1973-74	1973-74
N.S.W.	14.00 - 38.00	26.00 - 42.00
Vic.	25.60	25.60
Qld.	12.85 - 42.10	19.25 - 38.90
S.A.	12.50 - 32.50	16.50 - 32.50
W.A.	20.70	20.70
Tas.	12.15 - 30.00	23.00 - 40.00

Source: Housing and Construction (H. & C.) Quarterly Returns from State Housing Authorities.

The Poverty Inquiry and the PRS report had proposed market rent as the pricing policy for rental dwellings. The New South Wales Housing Commission argued in support of market rent that

> There are substantial inequities in the present system. ... The Commission has on record numerous instances of tenants in what are now regarded as very favourable suburbs, paying rents as low as $13.60 per week, ... On the other hand, the economic rents of new three-bedroom dwellings being let at Bidwell and at Airds at 30 June 1976, were $42.00 per week ... (1975, p. 5).

Apart from the inequities between tenants within the public housing stock, the Poverty Inquiry drew attention to the inability of the program to assist all those in poverty. The market rent proposals were basically intended to tailor assistance more closely to need. Rental rebates would operate where tenants could not afford the rent set against a dwelling.

To charge the most the market will bear for public rental dwellings may result in market distortions in some situations where the public rental stock comprises a significant proportion of the market. The quality and location of public dwellings will result in lower prices being charged than those applying generally in other areas of the rental market.

The 1978 Agreement also incorporates rent rebates but requires states generally to relate rents for public dwellings to market rents. This link with market rents has been criticized on the ground that it will exacerbate inequity between public housing tenants and those owning or buying their house since:

- owner/buyers receive the benefit of tax-free capital gains whilst tenants do not share in non-taxable capital appreciation;
- the non-taxation of imputed rent;
- the cost of purchasing remains fixed in money terms whilst rents continue to rise;
- some owner/buyers can receive a concession by way of local government rates taxation deduction whilst tenants pay the cost for the property owner;

- eligible first time buyers can receive the benefit of the Home Savings Grants Scheme, and Home Loans Interest Tax Deductibility.

Several states have announced details of the basis of establishing 'market related' rent:

- N.S.W. has a policy of charging 80 per cent of market value of rentals for equivalent private sector accommodation in the same area. Approximate rents for a three-bedroom public housing dwelling in June 1978 were between $37 and $39 per week. For those on very low rentals (pre-1976) the new policy is being gradually implemented. When the policy was introduced some rents were reduced.

- Victoria has established average metropolitan rents of about $35 per week for similar accommodation.

- Queensland has moved towards implementing market related rents, based on a minimum rent estimated to be approximately 87.5 per cent of market rent.

- Western Australia has adopted rents at 80 per cent of market rent but these are averaged over the metropolitan area - special rents apply in country and remote areas.

- South Australia relates rents for new dwellings and recommended increases in the vacancy rents for existing dwellings to open market rents for equivalent dwellings.

- Tasmania bases market rent levels on data obtained from the Valuer General. A maximum increase of $10 per week was set and some tenants on the former 'economic' rents have had their rents reduced to comply with the market related concepts.

VIII.6 RENTAL REBATES

Another part of the rental policy which will undergo change during the 1978 CSHA is rental rebates. The Agreement requires the Commonwealth and states to seek ways of moving towards a uniform rebate system, and it is the first time since 1945 that efforts are being made by the Commonwealth for a review. All states operate a rental rebate or rental reduction scheme for those tenants unable to afford the full rent. At the time the 1978 Agreement was being developed, Victoria, Queensland and Western Australia followed in most respects the formula laid down in the 1945 Housing Agreement. South Australia and Tasmania had developed their own specific formulae which, while following the general outline of the 1945 formula, had significant variations in income/rent percentages. New South Wales had recently adopted a formula which varied considerably from the 1945 Agreement.

The application of rental rebate policies resulted in some marked discrepancies in the treatment of tenants in public housing both within and between states. This was due in part to the use of different formulae, in part to the different approaches to the assessment of income, and in part to the uneven allowance for family size. For instance, an invalid pensioner with wife and one child and with maximum free income could pay a rent ranging from 19.5 per cent to 26.5 per cent of income, depending on the state in which he resided. The incidence and revenue forgone for rental rebates in each of the states in 1976-77 and 1977-78 are shown in the following table:

Table VIII.2

STATE HOUSING AUTHORITY RENTAL REBATES: DISTRIBUTION AND VALUE, 1976-77, 1977-78

	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.	
Per cent of tenants receiving rebates	14.1	19.5	28.4	17.0	36.0	37.3	1976-77
	25.0	22.7	39.2	23.3	43.0	40.8	1977-78
Value of rebates ($m)	5.7	4.7	2.1	2.1	3.8	1.2	1976-77
	12.4	5.6	3.6	3.2	6.3	1.7	1977-78

Source: H. & C. Quarterly Returns from State Housing Authorities

The total number of rebates current was around 42,000. Of these, about 95 per cent were dependent upon Commonwealth benefits; the aged, widows, and supporting mothers accounted for some 80 per cent of rebates. As states move towards implementing market related rent, the number of households receiving rebates and the value of rebates granted will increase. Increases in rebates have already been substantial in all states and territories. An initial conference with all states has been held on the proposal to move towards a uniform system.

Victoria and Western Australia have recently announced new rental rebate policies which are similar in principle, and based upon a decreasing proportion of income as rent contribution, as income declines. Uniformity in rental rebate practices is important because most recipients are dependent upon Commonwealth income maintenance programs. Uniformity of rental rebate policies may be difficult to achieve because each state has its own policy, and Commonwealth subsidies are not related to rebates granted.

VIII.7 SALE OF DWELLINGS

The 1978 CSHA introduced new policies in relation to the sale of public housing. The 1945 CSHA, by requiring advances to be repaid to the Commonwealth when a dwelling was sold, effectively discouraged the sale of rental dwellings. In 1955, the Agreement was amended to allow sale of dwellings to tenants, with the authorities providing vendor finance. These contracts of sale have assisted some 133,000 families to achieve home ownership. On the other hand, the sales policy has severely eroded the stock of dwellings available for rent. (Tables VIII.3 and VIII.4)

The 1973 CSHA limited the number of dwellings allowed to be sold to 30 per cent of the stock completed under the Agreement. Whilst the intent of this provision was to preserve the housing stock for future rental to lower income families, it proved ineffective because it did not control the number allowed to be sold from pre-1973 stock. Sales during the three-year period 1974-75 to 1976-77 are shown below. In some states, despite relatively substantial construction programs in the period, only minor increases occurred in overall stock. The 1973 CSHA also introduced a needs test for eligible purchasers, stipulated that the sale price would be not less than the average of the cost of the dwelling to the housing authority and the fair market value and that the interest charge should be in the range 5 to 5.75 per cent.

Deposits required by the states were minimal, ranging from nil in Tasmania to $500 in Queensland. Repayment terms were generally over 45 years, although in South Australia the sale of pre-1973 stock was subject to a shorter repayment term and a higher interest rate. Western Australia operated a somewhat flexible

Table VIII.3

HOUSING AGREEMENTS 1945-1978,
SALE OF DWELLINGS

	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.	TOTAL
Total CSHA completions[(a)]	114,151	83,616	35,112	37,315	33,818	13,983	317,992
Sales	43,844	46,259	16,407	9,692	13,003	7,489	136,694
Net CSHA stock	70,307	37,354	18,705	27,623	20,815	6,494	181,292
Total lettable stock (including state financed)	81,242	40,322	15,595	40,129	25,218	7,698	210,204

Source: H. & C. Quarterly Returns from State Housing Authorities

(a) This table should be read as an indicator only as in some states it is impossible to separate public housing and service housing built under the same Agreement.

Table VIII.4

HOUSING AGREEMENT STOCK MOVEMENT,
FINANCIAL YEARS 1974-75 TO 1977-78

	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.	TOTAL
Completions	12,527	9,914	4,021	4,739	3,586	3,135	37,922
Sale of pre-1973 stock	3,620	5,270	2,866	26	2,265	146	14,193
Sale of 1973 CSHA stock	249	5,260	384	1,188	736	690	8,507
Net Addition	8,658	-611	771	3,525	-585	2,299	15,222

Source: H. & C. Quarterly Returns from State Housing Authorities

approach to repayment term, attempting to tailor the period to an individual's circumstances. Most states pursued a policy of reducing sale prices, making an amortization allowance if the house had been rented for a period prior to sale. By mid-1976 New South Wales, South Australia and Western Australia had restrictions on sale of particular stock in order to preserve options for future redevelopment, or maintain stock in strategic locations. Later that year Tasmania imposed a complete prohibition on sales.

Sale of public dwellings was of greatest benefit to single-income poor families. No doubt vendor financing enabled many households to accumulate assets, enabling them to expand their housing consumption by trading-up in the private market. This achievement must be balanced against the drain on public funds to provide replacement rental dwellings and the inequalities between public and private purchasers. It is more difficult to justify the sale of public housing to those who could have achieved home-ownership through normal market mechanisms. An important issue which arises with the sales program is whether sales have a deleterious effect upon the quantity and location of the public housing stock. Tables VIII.3 and VIII.4 illustrate the effect of sales

on maintaining a stock of dwellings. The location issue is more complex and depends upon an assessment of the desirability of supplying public housing, and therefore choice, throughout metropolitan areas. In the past, community facilities, employment opportunities and services have caught up as city growth continued, with the result that some areas of public housing are now in desirable inner to middle urban locations. Retaining stock will enhance the possibility of matching housing allocations with employment or other opportunities. Sale of dwellings in large public housing estates does, over time, improve social mix and break down the concentration of public housing tenants in large areas.

In an effort to overcome some of these problems the 1978 CSHA did not place restrictions on the sale of rental dwellings, but required the states to:

- sell dwellings at market value or replacement cost;
- sell on the basis of a cash transaction, with proceeds being reinvested in public housing.

By adjusting the pricing policy to market values, numbers and location would not be affected if housing authorities repurchased within the private market in a manner such that locational criteria were satisfied. However if CSHA funds were used to provide new dwellings, this would tend to result in new housing stock on the urban fringe.

The 1978 Housing Agreement specifically provides for sales of housing authority dwellings at market value or replacement cost on a basis of a cash transaction, and gives public housing tenants access to Home Purchase Assistance (HPA) funds. This means that sales prices and the availability and cost of subsidized finance have to be equitable as between housing authority tenants and others. Market based sale prices ensure maintenance of the real financial capacity to provide rental accommodation. On the finance side, there appears to be no reason for treating eligible housing authority tenants and private tenants differently for home-ownership assistance. To give housing authority tenants a 'special deal' either in terms of the availability or quantity (loan to valuation ratio) of home-ownership assistance artificially boosts the waiting list for authority housing. People should not be required, or encouraged, to become public housing tenants just so that they can receive advantageous home ownership assistance. As a corollary, public housing tenants should not be provided with purchase assistance if they are able to finance the purchase privately.

Under the 1978 Agreement there need not be any inequality between private and authority tenants, nor any nexus between construction activity and home-ownership assistance. Indeed, Clause 23(2) of that Agreement requires that by 1980-81 all persons receiving home purchase assistance will have available to them a range of borrowing options. This should not mean a lower demand for home-ownership or a lower demand for houses, but would enable a greater range of choice for all those being assisted into home-ownership. It may mean less public construction and more private construction or revitalisation of existing areas. This measure will more accurately reflect the use of funds - home purchase will no longer be disguised as rental investment, committed to contracts of sale and vendor finance.

VIII.8 OTHER INNOVATIVE MEASURES

In the section of the 1978 CSHA which sets out the purposes for which rental housing funds can be used, a wide range of new measures has been included.

The Poverty Inquiry concluded that the fault with the public housing system is that it does not promote effective housing choice for low income families and

suggested that co-operative housing associations are one possible method of doing this. To facilitate such approaches, the 1978 Agreement allows the states to on-lend funds to voluntary or charitable housing management groups. A pilot Rental Housing Association has commenced operation in Fitzroy-Collingwood and will be subject to evaluation by Melbourne University under the direction of the Victorian Housing Commission. Similarly, in certain localities it may be more appropriate in terms of efficiency for the states to seek the co-operation of local government in either constructing or managing housing on their behalf. In this manner, local governments can be provided with funds to undertake welfare housing programs in their own municipalities.

A further provision of the Agreement will permit states to lease dwellings from the private sector in order to diversify location and types of accommodation provided by their own rental stock and to involve private capital in the provision of welfare housing. The Agreement also opens the way for state housing authorities to use rental housing funds for urban activities of a comprehensive nature. The funding of community facilities, provision of open space, landscaping, land development, urban renewal activities, research, advisory assistance, policy development and the integration of public and private housing to achieve desirable socio-economic mixing are all specifically mentioned. No doubt the ability of the states to respond to these stimuli will, in part, depend on the availability of finance and the priority given in the allocation of resources.

The aim of the rental part of the 1978 CSHA was to overcome the rigidity and emphasis on building obvious in previous Agreements and inject sufficient flexibility into arrangements to encourage a more comprehensive and contemporary view of the role of public housing in the broader urban system. Public housing assistance (which need not be development) could then be better integrated with private development, employment opportunities, community facilities and transport. More emphasis could be placed on efficient use of the existing housing stock by purchasing and rehabilitating older houses in appropriate locations. The skills and knowledge of local government could be used where appropriate to address housing problems.

VIII.9 HOME PURCHASE ASSISTANCE

The Home Builders' Account (HBA) was first introduced in the CSHA in 1956 'to encourage home ownership rather than rental housing'. A secondary objective was to advance the HBA funds through building societies and 'in this way stimulate the development of building societies in Australia' (Housing Agreement Bill, Second Reading Speech, 1956). To 30 June 1978 the Commonwealth had advanced a total of $1,141 million, enabling 160,000 loans to be made, over half of them directed to construction of new dwellings. South Australia, for example, has directed all HBA loans to new dwellings, and some states have directed lending to new construction in times of sluggish building industry activity.

The introduction of the HBA arose from an assessment by the Commonwealth of the operation of the 1945 Agreement. The Liberal government felt that the 1945 Agreement did not sufficiently associate the Commonwealth with the provision of benefits of rental housing, nor sufficiently encourage home-ownership. In his policy speech on 4 May 1954, Prime Minister Menzies indicated that government policy would require any new housing agreement to encourage home-ownership, while providing ample opportunities for the work of building and co-operative societies.

In planning Commonwealth housing policy in 1954-55 consideration was given to the channelling of HBA advances through the Commonwealth Bank. In the event, the government did not approve this proposal and at the Housing Ministers' Conference in March 1956 a draft Housing Agreement was considered which put

forward the proposal that building societies would be the main avenue for loans. All states but Victoria objected to this, a common objection being that the building societies were not sufficiently organized to use the money. In Tasmania, in particular, legislative provisions to guarantee loans to terminating building societies did not exist, and no such societies had been formed. Also, permanent societies in Tasmania did not wish to receive advances under the Agreement. In South Australia the terminating building society movement did not develop due to state government policy effectively preventing these societies from forming.

The compromise final agreement in relation to the HBA was that 'all moneys...shall be used by the State for the provision of finance for home builders in that State by means of loans by the State to building societies and other approved institutions...'. The 1956 Agreement provided for the allocation of funds to the Home Builders' Account at not less than 20 per cent of total advances in the first two years, increasing to not less than 30 per cent in the subsequent three years of the Agreement. During the period of this Agreement the Minister for National Development endeavoured to promote the maximum rate of increase in the allocation of Home Builders' Account moneys to the building societies.

When Commonwealth policy on a new housing agreement was considered in early 1960 the concept of allocating funds to building societies was still unpopular in the states, particularly in New South Wales, South Australia and Tasmania, but in the final outcome the allocation remained at 30 per cent.

Under the 1961 Agreement the allocation of finance in any one year to home building institutions, other than building societies, required specific approval of the Commonwealth minister. In making this decision, the minister had to pay due regard to, among other things, 'the promotion of the maximum development of building societies in the State'. However, funds were allocated to state banking institutions in South Australia, Tasmania and Western Australia. The agreements between the Commonwealth minister and state housing ministers embodied considerable variations in respect of the detailed terms of allocation of HBA finance.

The 1966 Agreement was drafted in the form of a five-year extension of the 1956 Agreement, the terms and conditions on which advances were made remaining basically the same. There were, however, certain amendments, one of which was designed 'to improve the lot of the rural worker and other people in rural areas who are often deprived of the benefits of the Home Builders' Account provisions because there are no building or housing societies operating in their areas'. The amendment permitted a state to allocate a proportion of HBA advances over each of the next five years to a government lending institution. This was then to be used to provide finance to persons seeking to buy or build homes in rural areas.

In 1971 the CSHA was not renewed as such, but replaced by the *States Grants (Housing) Bill* 1971. Under the provisions of this Bill the states continued to determine the amount of their annual Loan Council borrowing programs to be allocated to housing. In lieu of the interest concessions on such allocations, they received grants to subsidize the interest payable and assist in meeting the cost of rental rebates.

Following the change of government in 1973, a new Agreement was negotiated. The five-year Agreement made advances to the states at low rates of interest for welfare housing purposes, with the aim of directing assistance to those people most in need of it. In previous Agreements, HBA advances had been maintained at 1 per cent below the long term bond rate. The 1973 CSHA charged interest on HBA advances at 4.25 per cent per annum. The long-term bond rate at this time (12 July 1973) was 7.0 per annum. In the Schedule of HBA Advances the 1973 CSHA introduced:

- a main breadwinner's needs test for borrowers of 95 per cent of AWE, plus adjustments for households with more than two children;
- a minimum equity requirement of not less than 3 per cent of valuation;
- a maximum interest rate to borrowers of 5.75 per cent which includes loan management charges by the society or other approved lending authority;
- a minimum of 20 per cent and a maximum of 30 per cent of total housing advances to be allocated to the HBA for lending through co-operative terminating housing societies or other approved institutions;
- loans were not permitted for dwellings constructed by state housing authorities using advances under the 1973 CSHA.

An important feature of the HBA since its establishment has been the development of a revolving fund. This is a surplus arising from the differences between the 53-year loan term which the Commonwealth lends to the states and the 31-year loan term which the states offer to home builders. Many borrowers also pay out their mortgage for various reasons before term. These factors provide for the development of a steadily increasing fund which allows additional lending.

The level of lending under the HBA program increased steadily up to 1973-74 and then increased significantly:

Table VIII.5

HOME BUILDERS' ACCOUNT LENDING

Year	Number of Loans	Drawings from HBA
		$m
1956-57	1,801	12.461
1961-62	4,527	25.415
1966-67	6,994	46.950
1970-71	9,403	71.424
1971-72	8,201	69.895
1972-73	8,864	84.808
1973-74	10,053	111.008
1974-75	13,207	183.536
1975-76	9,628	146.146
1976-77	9,475	161.655
1977-78	9,864	172.445

Source: H. & C. Quarterly Returns from states. Drawings from HBA are the combination of Commonwealth advances to the states and revolving funds.

Although not required under the conditions of the 1973 CSHA, each state imposed maximum loan limits on lending through the HBA. These limits varied between states (Table VIII.6), and Western Australia has different limits for non-metropolitan regions within that state.

These loan limits in effect constituted a rationing of funds. Thus, for a given house price, a borrower would need to choose between providing a larger deposit, obtaining supplementary finance or purchasing a cheaper house. No

Table VIII.6

HOUSE PRICE INDEX AND HOME BUILDERS' ACCOUNT
LOAN LIMITS (30 JUNE)
($)

	House Price(a) $	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.
1974	28,300	15,000	15,000	15,000	15,000	17,000	15,000
1975	31,700	19,080	20,000	18,000	18,000	17,000	15,000
1976	33,900	20,500	22,500	18,000	18,000	20,500	15,000
1977	26,400	20,500	25,000	18,000	18,000	23,900	22,500
1978	39,200	23,000	25,000	18,000	21,000	24,500	22,500

Source: Housing Cost Inquiry.

(a) Land/house package price for Sydney, consisting of notional price of a 110 square metre house and average price of a block of land.

previous Agreement has included a provision in the HBA to allow for a reduction in the subsidy as a borrower's capacity to meet the cost of housing finance increases. While this is not of great concern in periods of low inflation, in periods of rapid inflation the subsidy becomes increasingly generous as mortgage repayments become a decreasing proportion of income over time (Table VIII.7).

Table VIII.7

LOANS AND REPAYMENTS

Year	Average Loan at Time $	Long Term Bond Rate %	Interest Rate (fixed) %	Repayments per week (31 years) $	Repayments as a percentage of AWE	
					When made %	At Dec. 1976 %
1956	5,300	5.00	5.25	6.71	18.28	3.40
1966	7,000	5.25	5.50	9.12	16.00	4.71
1976	18,000	10.00	5.75	24.18	13.49	12.56

Whilst data on mortgage finance and income of borrowers are limited, it is clear that the HBA program did not fully meet the demand from households who could be eligible under the 1973 CSHA needs test. A critical issue in setting eligibility principles for the 1978 CSHA was whether the 1973 needs test was an appropriate measure of need for subsidized mortgage finance.

In summary, the weaknesses in the program discussed above are:

- the supply of funds has not met eligible demand;
- loan limits imposed by the states have 'rationed' funds;
- there has been no provision for the reduction of the subsidy over time;
- doubts whether the needs test is an appropriate measure of need.

Despite these weaknesses in the program it should be acknowledged that without the supply of concessional mortgage finance through the HBA, the majority of those who received loans either may not have been able to achieve home-ownership, or could have done so only with extreme difficulty.

Difficulties in achieving home-ownership increased significantly in the early seventies, because of the effects of rapid inflation on land prices, house prices and increases in interest rates. In 1974 the PRS had suggested the introduction of deferred mortgage repayments, to provide limited relief for home buyers suffering the effects of inflation.

The Australian Housing Corporation, created in 1975, was initially established to improve the availability of finance to those borrowers at the margin. These functions would have complemented lending to more needy borrowers through the 1973 CSHA. However, no lending was undertaken by the Corporation, which during its short life span was mainly concerned with the administration of the Defence Service Homes Act. At that time the key factors affecting the ability of people to achieve home-ownership revolved around: increases in house prices; high interest rates that reduced the loan amounts that home buyers on a given income could afford to borrow; and stricter rationing practices by most financial institutions meaning that large equities were required, and creating difficulties for those low-to-moderate income families with low savings capacities, especially those on one income with child rearing expenses. In effect, home buyers were squeezed by a decrease in their borrowing capacity. This, combined with larger equity requirements, meant that access to home-ownership became more difficult.

The agreement that eventually emerged in 1978 reflected some of these issues. It was broadly intended to provide concessional interest mortgage finance, and relate benefits to family circumstances, both at entry to home-ownership and over time.

VIII.10 THE MAIN CHANGES: HOME PURCHASE ASSISTANCE

In addressing the problems discussed above, the 1978 CSHA, rather than prescribing eligibility criteria, established principles to be followed. It is up to each state to determine lending principles, but: the conditions of eligibility shall be such that loans are made only to those persons who are not able to obtain mortgage finance in the open market or from other sources; in determining the amount of loan and of repayments, regard shall be had to family income, assets of the borrower and size and standard of the dwelling (Housing Assistance Bill 1978, The Schedule, Clauses 26(2), (3)).

Loans previously advanced from the HBA have been provided as first mortgage finance with conventional repayment streams. The 1978 CSHA encourages the states to adopt a range of flexible lending practices, including: (a) escalating interest loans with income geared starts; (b) deferred interest repayment loans; (c) income geared repayment loans; (d) high start loans; and (e) second mortgage lending and provision for variation in repayment in the event of hardship. The Agreement also allows funds to be used for providing a subsidy to eligible home purchasers or lending institutions to reduce the interest cost of loans to end borrowers (i.e. interest subsidies on private borrowings).

This range of lending practices was introduced with the intent of inducing as much flexibility and capacity for innovation, or tailoring lending to need, as possible. A further measure designed to ensure that repayments are related to changing circumstances over time is the introduction of escalating interest rates payable on loans. The funds advanced to states are repayable over 53 years at a fixed interest rate of 4.25 per cent. However, in on-lending those funds to agencies the states are required to charge the agencies not less than 5 per cent in the first full year of the loan, increasing at .25 per cent per

annum until a rate equivalent to 1 per cent below the long-term bond rate is reached. After that, the interest rate varies in accordance with bond rate movement. These provisions are designed to ensure that in most cases subsidy is concentrated in the early years of the loan. It is hoped that states and lending agencies will adopt a variety of subsidy methods tailored to varying needs. These will be described in the annual report to the Commonwealth Parliament required by the *Housing Assistance Act* 1978.

The difference in interest rates between the state and the Commonwealth and the lending agency and the state will result in a substantial increase in the growth of revolving funds. These funds must be re-used in the Home Purchase Assistance program. Revolving fund additions amounted to $35 million in 1975-76, $61 million in 1976-77, $49 million in 1977-78, and an estimated $64 million in 1978-79.

VIII.11 CONCLUSION

To a large extent this chapter has focused upon the weaknesses of both the rental and home-ownership programs under the various Commonwealth-State Housing Agreements. It has done so because the 1978 changes were aimed at re-directing some of the policies and are part of a continuing re-definition of policy issues within the broad housing context. The tendency in examination of housing policy is to focus on problems and issues. Inevitably, this results in an understatement or oversight of the positive achievements of state housing authorities and home lending institutions and a simplification of the management problems involved. They have been powerful agents in meeting housing need, alleviating poverty, and helping families to achieve home-ownership.

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PART IV

GENERAL

IX EXTENDED LEAVE AS AN EMPLOYMENT OPTION: THE CASE OF AUSTRALIAN LONG-SERVICE LEAVE

Denis J. Davis

IX.1 INTRODUCTION

Long-service leave is now such a widely and well-established institution in the Australian work scene that most Australians do not realize how unique by world standards it really is. Furthermore, the Australian system seems to have attracted little attention elsewhere. Woodhall describes it in a paper upon paid educational leave presented at an OECD conference (OECD, Paris 1975, p. 373), but it cannot be claimed either that it has emerged as an international yardstick or that more than a small percentage of oversea experts has grasped its form or its relevance to major pressing labour market issues.

In this regard we have been remiss; for there are some current labour market issues for which long-service leave - representing as it does the notion of interrupted 'working-time' - has considerable relevance, amongst which could be included: education, personal health and development, sharing of productivity gains, and employment. Extended leave was possibly introduced in Australia as much as a means of sharing productivity gains as anything else, as its utilization specifies no particular purpose, the recipient can do with it what he likes; whereas, in the 60s and 70s in Europe, the introduction of extended leave was tied into the discussion of the financing of recurrent education, and as such it still attracts attention; and while, today, particularly in Europe, and during the present threat of continuing economic stagnation and the possible major loss of jobs through Third World competition and/or from technological change, it also is attracting discussion as a possible employment strategy.

It is in regard to employment that I consider extended leave in this chapter, but concentraion on this function does not imply that the other functions, of productivity sharing, education, health, etc., are any less important. So that there is common ground for discussion, the chapter first makes explicit and reconsiders certain assumptions underlying the definition of employment. Depending upon what definition one uses the employment role of extended leave can be a passive or a positive one. Later the chapter discusses the role of Australian long-service leave in respect of these passive and positive employment functions.

IX THE DEFINITION OF EMPLOYMENT

Before beginning discussion of *how* extended leave might be an employment strategy let us ask *why* this function of extended leave has been comparatively neglected. Part of the reason lies in using traditional economic definitions of employment; definitions that for many of us either consciously or sub-consciously bind too narrowly our perspectives and our reasoning, analysis, and discussion of employment problems. Unless we are aware of the constraints they put upon us, we shall continue to fail to see any substantial relevance in extended leave as an employment strategy.

We should give particular attention to how the definitions of employment we use affect our temporal and functional perspectives of employment: firstly, do we tend to see employment in a 'snapshot' situation with time apparently held constant, or do we see it in a longitudinal, time-flow perspective; and, secondly, do we tend to see the meaning of employment as working for income, or do we see it as taking part in a constructive and self-meaningful activity? In both sets of alternatives the traditional economic definition constrains most

of us to think in the snapshot or static and in the income-dominant employment perspectives, while what we need to be doing to match the needs of our time is to think in the longitudinal and dynamic and in the sense of employment as meaningful activity.

(i) The Temporal Dimension

If we define employment as being engaged in some activity of producing marketable or public goods and services (a traditional economic definition), and if we then, in the customary way, attempt to measure this employment in terms of the number of workers available to be employed, we should be aware, for the measure to be meaningful, of two ways in which time affects its interpretation. One of these ways we may not even consciously recognize. This is the matter whether in making a head-count of the number of employed we have assumed a common input of time per worker unit; that is, have we assumed that each worker counted is equivalent to an input of one man-hour, one man-day, or whatever time unit we want to take, or have we attempted to accommodate for any variation in input arising from the mix in the workforce of part-time and full-time units? Obviously this is an important issue in its own right and could influence policy through its influence upon the reality of reported data, but as the effect upon the choice of extended leave as an employment option is not a direct one, we shall not refer to it further.

Rather it is the second way in which time is taken into account which is the more immediately obvious, and this is usually made explicit in the definition: namely, the period of time over which the input of employment is measured - the amount of employment in a year, for example - the longitudinal perspective. Here again we need to be somewhat arbitrary and avoid some issues which in another context would be important - debates over the deficiencies of using static measures for measuring change over time, for example - but which in the present context stray too far from the point I want to stress: namely, that the time span we select determines the range of employment strategies available. This is obvious if we consider what one of the major roles of extended leave as an employment strategy would be: that is, to circulate a higher volume of workers through a given number of jobs. This is what I call its *passive* role, as the amount of work is taken as given and extended leave is merely an agent for sharing it. As such a job-sharing strategy it is a member of a package of options based upon the same principle; options such as increasing the amount of part-time work relative to full-time, decreasing the length of the full-time working week, and increasing the amount of annual leave. These options could, under certain conditions, lead to more workers experiencing a given volume of work.

But apart from extended leave, the above are all examples of the sharing of the volume of work of a year. If the employment span were kept, as it has been in most discussion of employment strategies, to one or only a few years, the job-sharing package must exclude the option of extended leave, as also it must exclude the options of variations in the length of working life through changes in the legal or conventional ages of first entry into, or final retirement out of, the workforce.

Though the bulk of discussion on employment strategies is still based upon very restricted time spectrums, there is, fortunately, evidence that this is slightly changing. Firstly, the very fact of having to seek the reasons for rising unemployment has focused some attention on what might be called life-time working time; for example, the comparatively early, for modern industrial countries, age of entry of Australian and age of retirement of Japanese workers have sometimes in their own national contexts been advanced as significant explanatory factors in their different unemployment rates. But, secondly, another reason for interest has been the trend of rising labour productivity and a desire by the labour movement to capture a share of this in increased leisure. Primarily this desire has concentrated upon efforts to bring in the 35-hour week

or to increase the length of annual leave - the aim of the European trade union movement, for example, is a ten per cent reduction without loss of income in annual working time - but the European movement, at least, has incorporated the other options of full life-time working time in its overview. Thirdly, another reason for attention has come from the academics who, being more removed from the hurly-burly of labour market negotiations are theoretically, at least, more able to objectively study the conditions under which variations in working-time could increase employment. In this analysis, some academics (see, for example, Mertens, 1979) have drawn the attention of the social partners - government, employers, and labour - to an overview of ways, including extended leave, of sharing life-time working time for more equitable employment. The case of Australia, where a comprehensive extended leave scheme is already a cost commitment, could therefore be of a special relevance to the planning of industrial and employment strategies for a number of countries.

(ii) The Functional Dimension

Our discussion of the temporal dimension of employment resulted in identifying the passive role of extended leave. In this regard the total volume of work was taken as given. But we need to examine the functional dimension of the definition of employment in order to fully discover the possibilities of a *positive* role for extended leave - the ways in which it might help increase the volume of work itself. In this regard we are ignoring the possibility that the volume of work would increase in the event of an economic recovery; the relevance of our present discussion relies to some degree on the assumptions that either economic recovery would be slow to stagnant, or it would not be sufficient to absorb the workforce given the present possibility of a major technological job shake-out (see, for example, Jenkins and Sherman, 1979).

The traditional western economist defines the production of a country, and thereby identifies the workforce that produces it, by the volume of goods and services flowing through market exchange. This is a definition of convenience for reducing the actual needs-satisfying activity of the population from its infinite physical and psychic forms to the common element of money, appropriate for economic management based upon accounting models. The implications, however, of this definition, given that it dichotomizes the need-satisfying activity, and the population thus involved, by a line drawn between what we might call 'economic', falling within the definition, and 'non-economic', falling outside, are extremely vital in respect of employment, through its results, firstly, upon the effectiveness of strategies, and, secondly, through its effect on the meaning and rewards of, and, therefore, demand for different types of work.

In respect of the first case, we can see how the dichotomy limits our employment strategies when we consider whom of the population it leaves out of the workforce: workers engaged in the 'black' labour market, for example, as well as housewives and do-it-yourself handymen engaged in activities for their households, people engaged in voluntary community work, and people who have opted out of the commercial sector to live in small self-sufficient communities and to trade by means of barter. The size and significance of these groups are changing according to the economic and social setting, and the nature and extent of their interaction with the identified 'economic' workforce is also changing. Thus policies based upon the economic workforce alone run the danger of ineffectiveness through their lack of comprehensiveness.

But the other employment effect of the dichotomy through its interpretation of the meaning of work is also very relevant. For society and individual, work's meaning is at least threefold: it has productive, distributive, and psychological connotations. Work produces goods and services: by its identification in our western commercial society with money income it has also become a means of distributing the share and increasing the diversity of society's stock of goods and services amongst its members; finally through its

social and self-identity of the role of the individual in society it has an important psychological function. It so happens that the definition we give to employment operates on the relative demand of one sort of work over another through its differential effect on these three functions. We do not deny the productive function of the work of the housewife or that of a man building his own garage, but, because, unlike employment in the economic workforce, this does not receive payment in commercial society's medium of exchange, money, it has restricted distributive value, and as this is the type of value that a person's work often requires for status and identity in our society the psychological value is also restricted. We have only to notice how we refer to welfare payments to the unemployed as 'hand-outs' or 'transfer payments', and refer to the wages of the employee as 'earned income', to realize the social connotations of being in or outside the officially defined workforce. The definition of employment thus restricts the volume of work that has social identity; I would maintain it is not neutral in its effect on the pressure to engage in economic work.

Hence, though one way to increase the volume of work available is through economic strategies, another would be by reconsideration of our definitions to increase what we consider socially acceptable activity. In this regard extended leave could be a positive agent. It could be adjusted to change in the ratio of supply of to demand for economic work; it could be used to equalize between individuals the ratio of time that they spend in economic and non-economic activity by permitting the release of people from all walks of life in its pursuit. The ultimate re-evaluation of non-economic work, so that people will find in it the social identity and reward now monopolized by work economically defined, is going to require a change in social values for which extended leave can help shape the climate. If large numbers of persons with aspirations geared to a western commercial society by traditional economic conventions find they have no socially identifiable work, change in values will take place anyway; but whether this change will be harmonious or discordant will depend partly upon how we structure for it. See, for example, Jahoda (1979) and Maddock (1978). Extended leave could be the type of positive agent for harmonious change we should consider.

IX.3 THE ROLE OF AUSTRALIAN LONG-SERVICE LEAVE

From 1951, Australian state governments, beginning with that of New South Wales, passed legislation providing long-service leave for workers coming under state industrial awards, and, subsequently, later legislation providing for all workers within their borders. In 1964, the Commonwealth Conciliation and Arbitration Commission incorporated long-service leave in its awards, and specifically included non-union as well as union members. In effect, extended leave has covered nearly the whole Australian workforce for some time.

The New South Wales state legislation seems to have set the *minimum* provisions of long-service leave throughout the country: thirteen weeks' leave on full pay following fifteen years of continuous service with the same employer. But exemption is given from the Act if other schemes or other awards are more generous, and it happens that a large part of the workforce, especially that in government employment, comes under awards that grant the thirteen weeks' leave after ten, not fifteen, years, service. Under all the schemes, entitlement for leave is repeated for every subsequent period of continuous service, though some schemes after the first period entitling leave either increase the length of leave entitlement in subsequent periods of continuous service, though some schemes after first period entitling leave either increase the length of leave entitlement in subsequent periods or reduce the period of service required before the next leave is due. None of the schemes requires that the leave be spent in any particular way; the recipient can do with it what he chooses, he can elect if he so desires not to take the leave at all, but take out its equivalent as a lump-sum salary bonus upon resignation or

retirement. This seems to be a popular option, and seems to indicate that long-service leave might be performing some sort of welfare function, supplementing age pension and superannuation schemes.

Australia would therefore seem to provide a test case of the effect of extended leave provisions upon employment; it has a widespread and fairly generous system which is nearly thirty years old; as a cost it should have been written into labour hiring overheads long ago, and any resulting production factor substitutions already made. Unfortunately, the one thing lacking is an adequate data bank. This year, the Australian Bureau of Statistics (ABS) published a survey of numbers on long-service leave between the beginning of May, 1978, and the end of April, 1979; this can be matched with measures of length of job tenure (the latest sufficiently detailed for this analysis being taken in August, 1976) to give some idea of the numbers entitled to leave, and thus an indication of the degree of utilization. The resulting calculations, therefore, are crude, and are very dependent for generalization, in the absence of trend data, upon the years of measurement being normal. Nevertheless, providing we can make this assumption, they do provide some interesting information which has implications for at least the passive employment role of long-service leave, described above. In regard to the positive role, we have no empirical base and can only speak hypothetically.

(i) The Passive Role

In addition to seeking some indication of the extent of utilization of long-service leave, I have attempted to gain from the data whatever clue they give of factors affecting that utilization. To help achieve this purpose, the discussion of the passive role is divided into: continuity of service (and therefore eligibility for leave); utilization of leave; and employment accommodation of workers on leave.

(a) Continuity of Service

According to the 1976 survey conducted on job tenure by the Australian Bureau of Statistics, 20.29 per cent of Australian wage and salary earners had ten or more years of service with their current employer. Substantially, this percentage represents the 'pool' of workers who would have taken or who would be eligible for long-service leave. A breakdown of this total helps us understand some of the variables governing its size. It is obviously subject, for instance, to the composition of the workforce by age, by sex, and by employment status, that is, whether employed part-time or full-time.

Predictably, as age is associated with length of service, the pool increases by age. In 1976, for persons aged 25 to 34, the representation of those with 10 or more years of continuity is only 12.33 per cent, but for persons aged 35-44, 45-54, and 55 and over, the percentages are, respectively, 24.79, 39.30, and 52.10. This means that if other factors remain constant or change insufficiently to offset the increase-in-continuity effect from the predicted ageing of the workforce (for example, on Borrie's projections, one would conclude that after 1986 the majority and not the minority, as now, of the workforce would be aged more than 35), the eligible pool for long-service leave much increase.

Another quite predictable finding, predictable from our knowledge of differences by sex in workforce attachment, is that women's continuity of service is much lower than men's; only 9.19 per cent of women compared with 26.6 per cent of men have 10 or more years of continuity, and, in addition, of women with the necessary continuity, a significant proportion, 26.9 per cent, are part-time workers - a relevant point insofar that the eligibility of part-time staff for long-service leave varies from being non-existent to being a pro-rata of full-time worker entitlement. One might surmise therefore that as women increase their share of jobs the eligible pool for long-service leave might

decrease. Employers might in fact be tempted to increase their employment of female staff relative to male for this very reason; it could free them of some of the cost of labour employment, long-service leave being part of that cost.

But from the data we cannot be certain of the full effect of a change in the sex ratio. Though the female : male ratio in the workforce is increasing, its effect in decreasing the pool of long-service leave entitlement would be offset to some degree by a growing labour force attachment by women, meaning that they are less willing than before to give up jobs or to change employment. New laws to help protect them against discrimination, and improvements in accouchement leave to enable them to have children without suffering a break in employment rights are examples of how the work environment is better able to help them in this resolve. That the female age group most likely to break its continuity of employment, that aged 25-34, is in fact continuing on in employment much more than before is evidenced by a rise in its workforce participation rate between 1974 and 1980 of from 43.4 per cent to 52.9. Undoubtedly this would, in the future, increase the average continuity of service of the female workforce, so the nature of the net effect of these factors upon the pool of long-service leave entitlement is uncertain.

As in the case of females *vis-â-vis* males, part-time workers *vis-â-vis* full-time have less continuity, only 8.31 per cent of part-time, compared with 22.22 of full-time, workers have 10 or more years of continuity. Furthermore, the eligibility of part-time employees for long-service leave varies. Under the New South Wales state Long Service Act, for example, permanent part-time staff who work 20 or more hours per week are entitled to 13 weeks long-service leave after 15 years of service, but this does not apply to casual staff or persons working less than 20 hours. Some awards, especially federal, may be more generous than this; others in some other states could be less. The trend, therefore, for the current growth of the workforce in Australia to be in part-time and not in full-time work could act to reduce the pool of workers eligible for long-service leave. In fact, a reason for the trend, like our conjecture of a reason for the rising female : male worker ratio, could be that employers are acting to reduce the cost over the long-term of labour employment. The overall effect on the pool, however, of both these trends, the rising part-time : full-time and the rising female : male ratios, would not necessarily be purely additive, as obviously they share a sizeable commonality.

(b) Utilization of Long-Service Leave

Data available upon the utilization of long-service leave are meagre, and non-existent before publication of an ABS survey in March, 1980. Even those data are basically confined to one table, and are not very refined. Nevertheless, in combination with data on continuity of service, the data on leave give sufficient information to derive the significant point that only a small proportion of those eligible for long-service leave seem to use it as leave, and, therefore, important in respect of policy is the conclusion that more investigation is required to see whether long-service leave might be made an effective employment strategy option.

The data given are only sufficient for 'back-of-the-envelope' calculations, but they give the impression that if the year covered by the survey, 1978-79, could be considered as normal, then at least 65 to 70 per cent of the male and female entitlement for long-service leave is taken not in the form of leave but rather as lump-sum bonus payments upon resignation or upon retirement. Furthermore, if the leave entitlement is converted into full-time job equivalents, it is equal in the case of males to between 18.6 and 24.4 thousand, and in the case of females to 4.8 thousand, full-time full-year jobs. If these figures were compared with the respective male and female unemployment statistics for April 1979 they would not in the case of females looking for full-time work seem very significant, being only 3.3 per cent of the total, but in the case of males they would be a respectable 9 to 12 per cent. We should note incidentally that given the way these figures were derived, they are probably, in the case of the male workforce, underestimates.

What do we know about the reasons for this under-utilization? Unfortunately, not very much; like so many other aspects of this matter, we do not seem to have any models of motivational forces affecting the behaviour of workers in respect of long-service leave. We can certainly hypothesize, for example, that workers, though having a legal guarantee of continuity of employment when taking leave, might be too valuable to the employer and persuaded not to take leave, or that workers might be fearful that in their absence others might assume their responsibilities to the point that their status in a hierarchical establishment could be challenged. Or we might suppose that some workers discount the psychic value of leisure compared with the psychic value of job activity, and/or the extra money value equivalent of three months taken on retirement and presumably at a higher salary level. These are all possible factors that could be explored but which are now largely unknown.

However, there is one factor, which is theoretically at least within the control of government to affect behaviour; this is government policy towards the taxation of lump-sum benefits from long-service leave. Indeed, the Commonwealth initiated a change in this regard in 1978. Prior to that date, lump-sum payments on accrued long-service leave were taxed at a rate of 32 per cent of 5 per cent of the total amount received, but now the regulation stands that the 32 per cent tax shall be on the whole amount in respect of leave accrued since that date. Certainly the effect of this change upon the utilization of long-service leave would not have appeared in the 1978-79 data, but its effect should from now on be closely monitored; for it suggests a direction of policy that could entice workers to take their leave. If it does not, then it could perhaps be considered whether monetary incentives could be changed still further; whether, for example, the marginal tax on the lump-sum payment should be raised again, or whether workers should receive three months' salary or wages at the retirement or resignation level on a leave entitlement that would have in all probability accrued at a lower salary level.

These are some ways in which 'penalties' could be increased for non-utilization. However, the tax system could be used in a positive way and directly linked with employment creation; that is, by giving work to those with leave entitlement in new job-creating areas, and taxing at less than marginal rates. We must remember that we are trying to entice out of employment persons who for some reason, monetary or non-monetary, have discounted the benefits of being on leave; hence giving them the option and the financial incentive to engage in job-creating activities, though not appealing to all, could nevertheless appeal to a significant number.

(c) The Effect on Unemployment through Labour Replacement

We need to be wary of supposing that a policy of encouraging greater utilization of long-service leave would lead to an equivalent reduction of unemployment. Indeed, before even deciding upon such a policy the community would have to resolve a moral question with possible industrial connotations, namely, whether workers should be forced to take their leave. This requires studies of the welfare aspect of the long-service leave option of substituting a lump-sum cash payment upon resignation or upon retirement, who actually finances this option, who is morally entitled to it, and determination of the extent to which it is financed by the public in taxes or in higher prices, and by employers in lower profits, or alternatively, financed by workers, themselves, in depressed wages, or depressed superannuation or age pension receipts.

Even if reduction of unemployment through encouraging a greater utilization of long-service leave appears morally worth attempting, the question of effectiveness arises. Between the decision of enforcing greater utilization of leave and the actual replacing of workers on leave with previously unemployed workers, there are a number of stages, decision points, where the full impact of the policy upon unemployment could be dissipated in 'leakages'. Leakages of impact would occur, for example, if some employees were to decide that in spite of all penalties they would still not take leave, or if some employers should

have an overcapacity of labour and therefore not need to replace the time lost of the worker on leave, or if, while needing to replace the time lost in order to maintain the old level of production, they replaced it by using overtime, by making capital/labour substitutions, or by reorganizing the work process, or if, failing these, they decided to sacrifice output and sales, or, if deciding to take on replacement staff, recruit from labour sources, such as housewives or full-time students, outside the registered unemployed.

As to the strength of extended leave over other employment-sharing strategies in minimizing leakages: being long-service, the employer could more easily plan to take on replacement staff, and being extended, the relative advantages of taking on replacement staff could be stronger than shorter-term expedients such as using overtime, or cutting output. Also, in the case of Australia, as the employer is already committed, whether or not the employee elects to take leave as leave, to meeting its cost and as this commitment has now been present for a long time, capital/labour substitution is probably not an option for existing plant workforces.

But leakages will probably still occur, and the question remains for the planner of how much the unemployment level would really fall. Apart from the extent of the leakages themselves, the answer would be the function of how big the unutilized pool of long-service leave is to begin with, and in this regard the unutilized pool in Australia, observable in 1978 in the male workforce as being 18,000 to 25,000 full-year full-time jobs, could be quickly reduced to a much smaller amount as the employment program progresses through all its various stages. If this, therefore, were the extent of the pool, an attempt to reduce unemployment through greater use of extended leave merely in terms of the passive role of greater job-sharing might not be worthwhile. But what has been measured is not in fact the total pool, but the pool generated in a particular year. The real pool of unutilized leave would presumably be a multiple of this, having been accumulating over a number of years.

Thus attempts to enforce a greater utilization of long-service leave could have quite dramatic effects, flushing out a very large number of senior workers. To cause such an effect the Commonwealth government need only, for instance, remove the time-point in its new tax regulation upon lump-sum long-service leave payments, stating that all cash conversions of accrued leave rather than just those on leave accrued since October 1978 would be subject to the severer taxation.

(ii) The 'Positive' Employment Role of Extended Leave

The provision of a substantial number of full-time full-year jobs from increased labour turnover in the 'economic' sector of the economy could therefore be a worthwhile result of encouraging greater utilization of long-service leave. Nevertheless, this outcome is a consequence of a passive attitude to the employment function of extended leave; it can more positively help condition and perhaps shape the labour market to structural changes.

We revert now to the earlier thrust of this chapter, which was to demonstrate that, in general, the solutions before the public have been constrained in the temporal and functional dimensions by the definition of the problem: as a consequence of the restricted temporal dimension we do not tend to see employment as a life-span, nor when policies focus on one point of that span tend to consider the repercussions that they could have throughout the workforce as a whole.

The positive role that extended leave can play in this situation is to help bring older and younger workers together. Presumably, younger workers would be helped into the workforce through extended leave's passive role, but the role should try to go well beyond this by the proper use of incentives; older workers on leave, and perhaps the firms which are their employers, might be

induced to give, for example, time and resources to establishing smaller firms or work co-operatives, firms that could combine the experience of the older workers with the labour and energy of the young unemployed.

Undoubtedly such a scheme would for some seem very idealistic, so we need to anticipate the objections that might on practical grounds be raised against it. In doing so, though, we should realize the quality of the resource we have available in the older workers on leave to serve this purpose; they are experienced workers, with a spectrum of knowledge ranging across the whole breadth of Australian industry and public service. In favour of the scheme, we could argue the following: firstly, though it could not be assumed that all workers on leave would be willing to perform the role described, we may presume from the fact that the majority do not utilize their leave that there is a significant number who discount leisure in favour of continuing employment, and that, in a new public policy that aimed at a general 'shake out' of workers into taking leave, this group of workers would seem to be the reservoir that might be induced to work amongst the young.

Secondly, though we could not assume that all workers willing to undertake the venture would be capable of carrying it out - there would be a group that would meet these requirements if sufficient preparation were given. Hence, in this employment program one can visualize an important role for the education system, consistent with its role of building education into a recurrent framework. Finally, though the scheme could not claim to be costless, it could be considered as an economic option. Hence, though the aim would be to eventually 'spin-off' firms from the work and experience of the older workers that would enable the permanent workers to establish commercial viability, we cannot avoid the need of providing at least some 'pump-priming' funds. Furthermore, some special arrangement could be required for the experienced worker to establish some contact with his 'protégé' before and after his leave. This would require some public funding, but, it could save costs elsewhere; if the scheme were effective, it could reduce unemployment relief and the funding of less effective schemes, so that the net cost might not be additional to what is already being spent.

The second definitional constraint was in respect to the dichotomy between economic and non-economic work. We may have to be prepared for a decline in the supply of economic work, in which case the psychology of the community will need modification towards the status of non-economic work. We then will have to convince ourselves that those who engage in leisure or non-economic activity are not necessarily worthy of less respect than those receiving money income for work rendered. Extended leave could be an important agent for this process - in at least two ways. The first is a corollary of the passive function. All the calculations of the effect of the passive function on employment were made on the basis of the existing leave regulations, but, if productivity should continue to increase and technology cause economic work to decrease, then there is no reason why workers should not accommodate to this process through more frequent and more extended periods of leave, so that the ratio of periods in economic to non-economic work would decline. This might be, for reasons already described above, a more effective way of sharing employment than through shorter working hours or longer annual leave.

The second way in which extended leave could be an agent for adaptation is in taking the worker-on-leave contribution to employment beyond economic activity into non-economic activity, such, for example, as culture and welfare. The worker-on-leave could build up community groups of unemployed to turn their leisure into a creative and/or service one.

IX.4 CONCLUSION

The arguments described above in favour of encouraging a greater utilization of long-service leave as an employment strategy have been put forward in all seriousness; long-service leave if it were utilized more effectively could, within our Australian context, make a worthwhile impact on behalf of more employment. But the arguments advanced, resting as they do on a redefinition of more conventional meanings of employment, have also used long-service leave as a case example. In other words, long-service leave is not the be-all or end-all of our problems, probably not even a principal instrument in providing optimal employment allocation. It is the need to break out of the bounds of conventional thinking that is the first and most important prerequisite; more appropriate solutions, extended leave being but one, to our changing economy and society might then follow.

Table IX.1

CONTINUITY OF SERVICE WITH CURRENT EMPLOYER, WAGE AND SALARY EARNERS, AUGUST 1976*

MALES ('000)

Duration of Current Employment (Years)	AGE GROUP					TOTAL
	15-24	25-34	35-44	45-54	55+	
Less than 10	746.6	691.5	384.7	294.3	160.9	2277.7
10 and less than 15	2.2	100.6	84.1	74.5	56.5	317.0
15 and less than 20	-	28.3	54.6	54.5	34.4	172.1
20 years and over	-	1.4	57.9	148.4	127.7	336.3
TOTAL	748.8	821.8	581.3	571.7	379.5	3103.1

FEMALES ('000)

Less than 10	603.3	378.8	299.7	234.5	83.8	1600.2
10 and less than 15	0.8	16.4	16.1	32.4	17.5	82.8
15 and less than 20	-	3.6	7.3	13.9	10.4	35.3
20 years and over	-	0.1	5.5	18.6	19.4	43.9
TOTAL	604.1	398.9	328.6	299.4	131.1	1762.2

PERSONS ('000)

Less than 10	1349.9	1070.3	684.3	528.8	244.6	3877.9
10 and less than 15	3.0	117.1	100.2	106.9	74.0	399.8
15 and less than 20	-	31.9	62.0	68.4	44.8	207.4
20 years and over	-	1.5	63.4	167.0	147.2	380.2
TOTAL	1352.9	1220.8	909.9	871.1	510.6	4865.3

Source: ABS Canberra, *Job Tenure 1976*, Cat. No. 6.44.

* See note at bottom of Table IX.2

Table IX.2

CONTINUITY OF SERVICE WITH CURRENT EMPLOYER
WAGE AND SALARY EARNERS, AUGUST 1976*

PERCENTAGE DISTRIBUTION BY YEARS OF CONTINUITY

MALES	A G E G R O U P					TOTAL
Duration of Current Employment (Years)	15-24	25-34	35-44	45-54	55+	
Less than 10	99.71	84.14	66.18	51.48	42.40	73.40
10 and less than 15	0.29	12.24	14.47	13.03	14.89	10.22
15 and less than 20	-	3.44	9.39	9.53	9.06	5.55
20 years and over	-	0.17	9.96	25.96	33.65	10.84
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00
FEMALES						
Less than 10	99.86	94.96	91.21	78.32	63.92	90.81
10 and less than 15	0.14	4.11	4.90	10.82	13.35	4.70
15 and less than 20	-	0.90	2.22	4.64	8.01	2.00
20 years and over	-	0.03	1.67	6.21	14.80	2.49
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00
PERSONS						
Less than 10	99.78	87.67	75.21	60.70	47.90	79.71
10 and less than 15	0.22	9.59	11.01	12.27	14.49	8.22
15 and less than 20	-	2.61	6.81	7.85	8.77	4.26
20 years and over	-	0.12	6.97	19.17	2.83	7.81
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: ABS, *Job Tenure 1976, op. cit.*

* These percentages have been used as the weightings for calculations in Table X1.4.

Table IX.3

CONTINUITY OF SERVICE WITH CURRENT EMPLOYER,
FULL-TIME AND PART-TIME WORKERS, AUGUST 1976

PERCENTAGE DISTRIBUTION BY YEARS OF CONTINUITY

	MALES		FEMALES		PERSONS	
	FULL-TIME	PART-TIME	FULL-TIME	PART-TIME	FULL-TIME	PART-TIME
Less than 10 years	72.69	90.11	90.22	92.06	77.78	91.69
10 and less than 15 years	10.47	4.07	4.93	4.20	8.87	4.17
15 years and under 20 years	5.7	1.76	2.01	2.00	4.63	1.97
20 years and over	11.12	4.07	2.84	1.74	8.73	2.17
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: ABS, *Job Tenure 1976, op. cit.*

Table IX.4

DATA BASE AND CALCULATION OF RATE OF UTILIZATION OF LONG-SERVICE LEAVE, MAY 1978 TO APRIL 1979

	MALES	FEMALES	PERSONS
(1) Total Employees, May 1979 ('000)[1]	3209.6	1862.3	5071.9
(2) Total Employees Eligible for Long-Service Leave ('000)	135.2	26.8	162.6[2]
(3) Pool of Long-Service Leave Entitlement[3] ('000 worker-weeks)	1757.6	348.4	2113.8[2]
(4) No. of Employees Taking[1] L.S.L. May 1978 - April 1979 ('000)	94.7	15.2	110.0
(5) Average Length of Leave[1] (weeks)	5.7	7.0	5.8
(6) Actual Long-Service Leave[1] Utilization ('000 worker-weeks)	535.5	106.3	641.8
(7) Unutilized Leave ((3) - (6)) ('000 weeks)	1222.1	242.1	1472.0
(8) Unutilized Leave in Full-Time Full-Year Job Equivalent ((7) ÷ 50) ('000)	24.4	4.8	29.4
(9) Rate of Long-Service Leave Utilization $(6)/(3) \times 100$ (per cent)	30.5	30.5	30.4

1 As reported in ABS, *Annual and Long-Service Leave May 1979*, Canberra, Cat. No. 6317.0.

2 The number of eligible full-time workers was calculated by weightings derived from the 1976 survey of job tenure. Changes between 1976 and 1979 in the ratio of males to females might account for the slight difference in the derived number of persons compared with the aggregate of number derived for males and females.

3 Total employees eligible for long-service leave multiplied by length of leave entitlement (13 weeks).

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X EVALUATION IN THE COMMUNITY HEALTH FIELD

John S. Western *et al.**

X.1 INTRODUCTION

The present chapter stems from the work which a multi-disciplinary group at the University of Queensland has been engaged in for approximately five years. The work has been funded by the (now defunct) Hospital and Health Services Commission and the Commonwealth Department of Health. Its main concern is with the evaluation of the community health program in Queensland and specifically with the impact of community health centres on the health of the communities in which they are located.

X.2 OBJECTIVES OF THE COMMUNITY HEALTH PROGRAM

The Community Health Program was one of several initiatives introduced in the mid-1970s by the federal Labor government as part of a wider concern about equity of access to health and welfare services in Australia. It differed from most earlier social programs in that it was not the result of modifications to existing policy but was rather an innovation, calling for a new focus and method of delivery of health care, new structures (the 'health centres') and changes in the training given to the health workers who would be the providers of this new service.

In June 1973 the National Hospitals and Health Services Commission: Interim Committee presented to the government a report entitled 'A Community Health Program for Australia', which set out the objectives of the Community Health Program (CHP) as follows:

> The objective of a national program should be to encourage the provision of high quality, readily accessible, reasonably comprehensive, co-ordinated and efficient health and related welfare services at local, regional, state and national level. Such services should be developed in consultation with and, where appropriate, the involvement of the community to be served. This objective would involve the provision of -
>
> (i) services that incorporate the most up-to-date knowledge and techniques available, provided by an appropriate range of medical, nursing and allied staff;
>
> (ii) services with an emphasis on prevention;
>
> (iii) readily accessible primary services, available equally to all, and a comprehensive range of facilities, back-up resources and supportive services, co-ordinated according to function at local, regional and state levels;
>
> (iv) continuity and co-ordination of service;
>
> (v) efficient management to support the professional teams and to ensure courteous and prompt care for the public (National Hospitals and Health Services Commission: Interim Committee, 1973).

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* John S. Western in association with D. Gibson, G. Lupton, J. Najman, S. Payne, M. Sheehan and P. Sheehan.

The program represented a substantial departure from previous government health care delivery systems in that it emphasized preventive and rehabilitative rather than curative services. Community involvement was seen as important in the management of services, partly to enable the public to see the limitations of traditional health care practices and thus come to accept responsibility for their own health care. Community involvement in the operation of the program was therefore seen as an indirect form of preventive health promotion. It was also anticipated that the program would be responsive to the differing health needs of groups in different areas and, by providing home care, would reduce demand for expensive institutional care. Cost containment was clearly an objective of the program.

Despite some conflict with the Australian Medical Association (AMA) and particular states, the program expanded and community health centres began appearing throughout the country. There was, at this stage, no hard evaluative or other evidence to suggest that this new form of delivery would be more effective, in terms of objectives, than either existing forms, or other alternatives not considered. Each state interpreted the federal program in its own way. Initially, the federal government provided the bulk of the funds (90 per cent capital and 50 per cent recurrent) which were distributed by the various state departments of health in accordance with their own budgets. The proportion of costs met by the federal government has progressively decreased since the commencement of the program, with the states making up the balance.

The Queensland government's interpretation of the program is contained in its 1977 Department of Health White Paper 'Community Health Service, Queensland, Policy Considerations'. In a number of respects the goals identified in this document are similar to those enunciated by the Hospitals and Health Services Commission. In brief they are as follows:

(1) to provide a community-based and community-oriented service;

(2) to develop the co-ordination of health and related services within the community;

(3) to provide services oriented towards what was called primary prevention. Primary prevention essentially has to do with the provision of preventive health programs and in this connection health education also;

(4) to provide services oriented toward secondary prevention. To the uninitiated this simply meaas the provision of a treatment or curative service. It is essentially the sort of service that we have customarily understood medical practitioners to provide;

(5) to provide services oriented towards 'tertiary prevention'. Again for the uninitiated, this means rehabilitation and the promotion of maximum levels of independence among the consumers of community health programs (*Community Health Services - Queensland: Policy Considerations*, Queensland Department of Health, undated).

Essentially community health programs are supposed to be concerned with prevention, treatment, rehabilitation, the co-ordination of services and a program which is oriented to the local community. A feature absent from the above has to do with community consultation and community involvement in the establishment and operation of services. The Queensland government took the view that such involvement was inappropriate. This view was stated quite explicitly by the Minister of Health in answer to a question on the issue in the Legislative Assembly:

> The State does not intend ... to have its community health centres administered by management committees with community representation thereon (Queensland Parliament. Questions Upon Notice, 7 October 1975, p.851).

Among the other states most enthusiastic support for the Community Health Program came, not surprisingly, from South Australia and New South Wales. The NSW Health Commission has produced a six-volume report on various community health program goals and an examination of appropriate strategies for attaining them. South Australia has produced a document which specifies the differing objectives for each community health centre and the activities that should be undertaken to achieve these objectives.

Four points are apparent from an examination of the development of the community health program. Firstly, the program emerged from an ideology which was in large part politically motivated. Secondly, state governments modified the program to fit in with their own political preferences. Thirdly, some objectives, such as increased preventive efforts, were consistently advocated by various governments regardless of their party-political characteristics. Finally, most statements about health centre goals and objectives were usually made in the absence of known and demonstrably effective initiatives.

X.3 EVALUATION OF THE COMMUNITY HEALTH PROGRAM

In 1974 a research group at the University of Queensland funded by the Hospitals and Health Services Commission commenced an evaluation of some aspects of the community health program in Queensland. Details of this work have appeared in a number of papers and the final report is scheduled for completion in 1982. Some features of the study bearing specifically on the issues already discussed will now be briefly considered.

The first task the research group addressed was the identification of a set of program goals. The set so identified consisted of the five goals outlined above in the discussion of the Queensland government's White Paper, viz:

(1) to provide a community based and community oriented service;

(2) to develop the co-ordination of services within the community;

(3) to provide services oriented toward primary prevention; (prevention)

(4) to provide services oriented toward secondary prevention; (treatment)

(5) to provide services oriented toward tertiary prevention (rehabilitation/maintenance).

In a sense these are the institutionalized goals of the program. To what extent are they shared by those charged with the responsibility of putting the community health program into operation? Do the practitioners in the varying health centres around the state see the situation in these terms? Are the expectations of the consumers similar as well, or do they expect a different form of service? If there are discrepancies in the views as to what goals should be, how do we achieve a balance between these discrepancies in determining whether goals have or have not been achieved? What if the consumer is entirely satisfied with the service that is provided, but it is not the service that the policy makers or the practitioners assert should be provided? What if the practitioners define their roles quite differently from their institutional betters? The resolution of questions such as these is central to any program of evaluation.

While it was resolved that the study should 'start from' the objectives of the community health program as enunciated in government documents, it was clear that the program objectives of those responsible for the implementation of the program might not necessarily coincide with these and were in any event of very

considerable importance and should be determined. The main measures used in the study to determine the extent to which the community health program goals were being achieved, and the significance of community health centres for goal achievement were as follows:

(a) specification of goal definition by community health centre practitioners;

(b) nature and extent of work related activities of health centre staff;

(c) attitudes to public health services, preventive health practices and related matters displayed by health centre clientele and general public;

(d) morbidity - reported symptomatology in a four-week period, health centre clientele and general public;

(e) utilization - sources of medical care, costs and accessibility to client, health centre clientele and general public;

(f) preventive health behaviour;

(g) cost per unit of care delivery (client contact);

(h) client use of and satisfaction with community health services.

Two areas, Ipswich and Inala, in which community health centres were to be built were selected as experimental areas. They were to be compared with control areas in which community health centres were not located and in which health care was delivered in the traditional manner. Information was collected from some 1,301 people in 403 households about the symptoms they had experienced in a four-week period, the health care they had sought, difficulties in obtaining care and so on. This information provided baseline measures of community morbidity and health behaviour levels, to be compared with levels reported by the same sample in a re-survey conducted in 1978 after the two health centres had been in operation for some time. Five hundred adults and 322 children were interviewed in both 1975 and 1978. An additional 254 adults and 146 children were interviewed in 1978 only.

The strategy was thus a quasi-experimental design involving two experimental (community health centre) groups and a control, which was matched on some socio-demographic variables. In addition, a sample of clients of the two health centres was interviewed about their health status, attitudes and behaviour, and centres' operations and the general goals of the community health program. Centre staff also completed work diaries over a ten-day period, in which they recorded the amount of time they spent in various activities. Data were also collected from the Australian Bureau of Statistics regarding community levels of morbidity and utilization, and economic data about the costs of providing and operating the community health centres was compiled.

To summarize, the sources of information relevant to the study's objectives were:

1. State and federal government documents, from which a set of program goals were identified.

2. A survey and re-survey (three years later) of a sample of residents of the 'experimental' and 'control' communities.

3. A survey of a sample of clients of the two health centres.

4. Structured interviews with the staff of the health centres.

5. Daily activity schedules, in which centre staff recorded the amount of time spent in various activities.

6. Australian Bureau of Statistics data on community levels of certain health indicators.

7. Economic data concerning the costs of establishing and operating the community health centres.

The complete detailed report of the findings of this project can be found in Western *et al.* (1982: in preparation). A highly selected series of findings will be briefly reviewed below under the headings 'community impact', 'practitioner response', and 'client reaction'.

Community Impact

One of the major goals of the community health program was to provide to all sections of the community and particularly to those groups 'in need' or 'at risk' a traditionally oriented treatment service. One measure, perhaps, of the success of the program in doing so could be the change in reported morbidity in an area following the introduction in it of a community health centre. In the course of the household interviews respondents were shown a list of thirty-two symptoms and asked to indicate which they had experienced in the previous four weeks. The listed symptoms were classified as acute, chronic or psychosocial according to an international classification by members of the project team. Table X.1 shows some examples of these symptom types. Table X.2 shows the average number of symptoms reported in each category and overall, for the two experimental and the control areas, in 1975 and 1978. While there is a slight increase in the levels of most symptom types from 1975 to 1978, these are not statistically significant except for the increase in acute symptoms for Ipswich residents ($p < .05$). Clearly there is no evidence of the health centre reducing symptom rates in the experimental areas.

Table X.1

SAMPLE SYMPTOMS DIVIDED INTO ACUTE, CHRONIC AND PSYCHOSOCIAL SYMPTOM CATEGORIES

Acute[(a)]	Accident or injury
	Chest pain
	Cold, sore throat and cough
	Earache or draining ear
Chronic[(b)]	Sinus problems
	Heart trouble
	Joint pain or swelling
	Overweight
Psychosocial[(c)]	Problems at work or school
	Nervousness
	Worry or depression
	Excessive irritability

(a) Eleven acute symptoms were presented.

(b) Ten chronic symptoms were presented.

(c) Nine psychosocial symptoms were presented.

Table X.2*

AVERAGE COMMUNITY SYMPTOM LEVELS BEFORE (1975) AND SINCE (1978), COMMUNITY HEALTH CENTRES

	Inala		Ipswich		Comparison Communities	
	1975 (n=201)	1978 (n=202)	1975 (n=199)	1978 (n=186)	1975 (n=398)	1978 (n=366)
Acute symptoms	1.06	1.16	0.97	1.33	1.12	1.33
Chronic symptoms	0.81	0.94	0.83	0.97	1.06	1.14
Psychosocial symptoms	0.76	0.76	0.78	0.78	0.86	0.81
Total	2.72	3.05	2.73	3.28	3.18	3.41

*Data in this table were subjected to analysis of variance to determine whether changes between 1975 and 1978 in the intervention communities were of a different magnitude to those occurring in the comparison communities. Data for the matched sample (those interviewed in both 1975 and 1978) and independent sample (those sampled on only one occasion) were separately tested. The above table reports only on the combined sample. There were no significant variations in rates of symptom change for the matched sample for acute, chronic and psychosocial symptoms when the three communities were compared. Apart from a disproportionate increase in acute symptom rates for adults in Ipswich ($p < .05$) for the independent sample there were no significant differences.

The Inala health centre, which provides primary medical care, almost doubled the number of doctors servicing the Inala area when it opened. Both Inala and Ipswich centres provide paramedical (allied medical) staff, so one might expect to find increases in the proportion of symptoms medically or paramedically treated if the traditional goal of treatment is being attained. Table X.3 compares the percentage of symptoms medically treated in a four-week period for the experimental samples in 1975 and 1978: the only significant change was in the proportion of psychosocial symptoms in the comparison sample treated by a doctor, which increased from 1975 to 1978. Paramedical utilization rates for the samples for the two years are shown in Table X.4. The numbers of respondents who in fact utilized the services of a paramedical health provider were too small in both years for statistical tests to be justified, and there are in any case no clear trends among the samples.

Data were also obtained for the Inala, Ipswich and comparison areas from the Commonwealth Statistician. One accepted indicator of the adequacy of health services is the perinatal and/or neonatal mortality rate. While Ipswich and the comparison areas have approximately similar stillbirth and neonatal mortality rates between 1972 and 1978, the Inala community has consistently higher death rates (Figure X.1). The Inala frequencies are low and not too much attention should be paid to year-by-year fluctuations. It is possible, nevertheless, to compare the stillbirth and neonatal mortality rates for the three community samples prior to and since the health centres came into operation. While the period since 1975-76 has been associated over all areas with a gradually declining death rate, this decline is not statistically significant. The Inala rates have remained well in excess of the other two areas, and there is no evidence that the gap between Inala and the other two communities is any smaller in 1978 than it was in 1972. The introduction of a health centre has not apparently influenced this indicator.

Table X.3*

COMMUNITY RATES OF DOCTOR UTILIZATION PER SYMPTOM BEFORE (1975) AND SINCE (1978), COMMUNITY HEALTH CENTRES

(PERCENTAGE OF SYMPTOMS MEDICALLY TREATED)

ADULTS

	Inala		Ipswich		Comparison Communities	
	1975	1978	1975	1978	1975	1978
Acute symptoms	27	27	27	32	23	26
Chronic symptoms	21	18	21	23	17	18
Psychosocial symptoms	15	12	15	9	5	11
Total	21	19	22	23	15	19

*For acute and chronic symptoms, there was no evidence that rates of medical utilization altered in the intervention communities as contrasted to the comparison communities either for the matched or independent samples. There has been a significant increase in medical utilization for psychosocial symptoms for the matched sample in the comparison communities ($p < .02$) but no change in the two intervention communities.

Table X.4

COMMUNITY RATES OF PARAMEDICAL UTILIZATION BEFORE (1975) AND SINCE (1978), COMMUNITY HEALTH CENTRES

(PERCENTAGE OF SYMPTOMS PARAMEDICALLY TREATED)

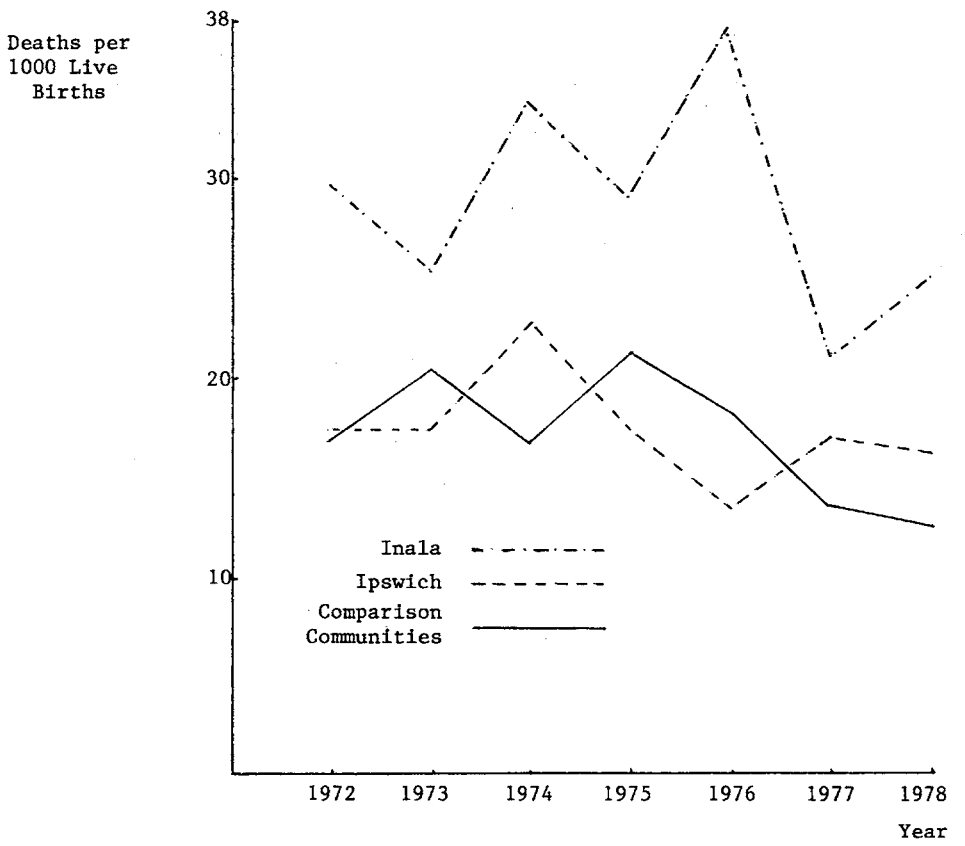
ADULTS*

	Inala		Ipswich		Comparison Communities	
	1975 (n=196)	1978 (n=197)	1975 (n=199)	1978 (n=186)	1975 (n=398)	1978 (n=366)
Acute symptoms	2.9	2.6	4.1	1.2	1.6	2.5
Chronic symptoms	0.0	2.2	2.4	0.0	1.7	0.7
Psychosocial symptoms	1.4	3.5	1.9	0.0	0.0	0.3
Total	1.6	2.7	2.9	0.5	1.2	1.3

*The frequencies in this table are too low to justify testing them for significant differences.

Figure X.1

STILLBIRTHS AND NEONATAL MORTALITY IN INALA, IPSWICH AND MATCHED CONTROL COMMUNITIES BEFORE (1975) AND SINCE (1978), COMMUNITY HEALTH CENTRES (DEATHS PER 1000 LIVE BIRTHS)



	1972	1973	1974	1975	1976	1977	1978	AVERAGE S.E.
Inala	29.2	25.4	33.9	29.1	37.8	21.0	25.0	9.0
Ipswich	17.4	17.4	22.3	17.4	13.5	16.9	16.2	3.5
Control	17.1	20.3	16.7	21.3	18.1	13.5	12.5	3.5

* A regression line of the neonatal mortality rate upon time was fitted to the before (1972-5) and after (1976-8) periods separately. The trends were examined to identify differences in the before/after regression coefficients both over time in any one area and for variation between areas. All regression coefficients were not significantly different from zero.

As we have noted, the rate of ex-nuptial pregnancies is an accepted predicter of neonatal mortality. Figure X.2 compares the three areas on their respective proportions of ex-nuptial births. Inala has a rate of ex-nuptial births consistently twice or more that of Ipswich and the other suburbs. The existence of the health centre has had little effect on the proportion of births in Inala which are ex-nuptial. The differences between the Inala rate and the Ipswich and comparison community rates appear greater in 1976, 1977 and 1978 than they were in 1972 and 1973 (though these differences do not appear to be significant).

Figure X.3 examines the number of cases admitted to public hospitals in Queensland. The data relate to the area of residence of the patients. The number of admissions per year amounts to between 13 per cent and 15 per cent of the population. Obviously, the same person may be admitted several times. The admission rate for the comparison communities is consistently below that of the two intervention communities. There is some tendency for the Inala and control or comparison communities' hospital admission rates to increase steadily since 1976. The post-1976 level of hospital admissions in Inala has been about half the rate of increase evident in the comparison communities. The Ipswich rate has been declining significantly since 1976. Hospitalization rates in Ipswich have declined by about .04 per cent per 100 population per year since 1976. These variations from the pattern of increased rates of hospitalization in the comparison communities are consistent with the view that the Ipswich and, to a lesser extent, the Inala health centres have successfully kept aged persons in the community.

The health centre program was guided, in part, by the view that more preventive medicine, earlier intervention in the disease process, a better co-ordination of services and an understanding of particular community needs would improve the health of people in the target areas. Not only would community health be improved, but it was also argued that the communities' reliance on medical care might be reduced by making a wider range of health care resources available.

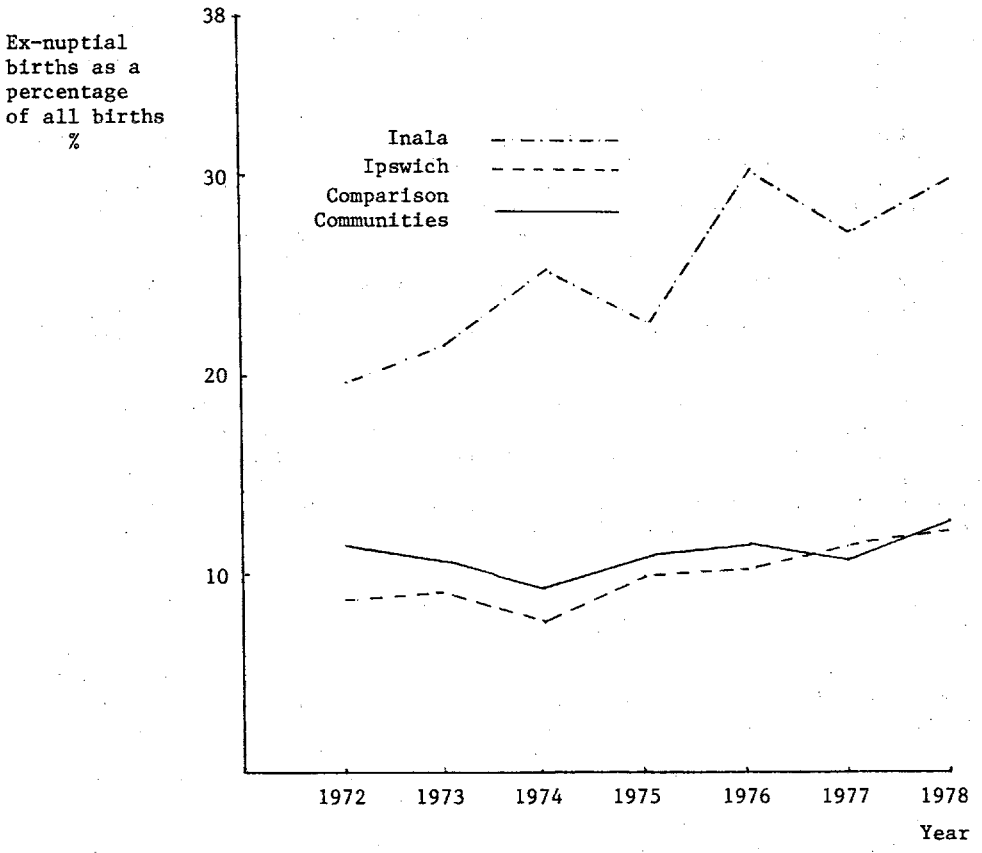
Our findings, with one important exception, fail to show that the two health centres improved the health of people living in the target communities. Over the first three years of their existence, the health indicators we have used (symptom rates, stillbirth and neonatal mortality rates) have not demonstrated that the trends in Inala or Ipswich areas differ from the comparison areas. We did not find any decrease in the rate of doctor consultations; further, we have not shown that the use of paramedical services significantly increased. Ex-nuptial pregnancy rates predict infant mortality rates and the former are amenable to health outreach types of interventions. Yet, despite the very high rate of ex-nuptial pregnancies in Inala before the health centre came into operation, there is no evidence that the subsequent period was associated with a decline in these birth rates. The important exception involves the decline in hospital admissions in Ipswich (and the lower rate of increase in hospital admissions in Inala). The Ipswich health centre places a substantial emphasis on community support for the aged and it appears reasonable to accept the evidence implying a health centre impact in this area.

Practitioner Response

In the course of the study detailed interviews were held with health centre staff. Among other things they were asked how they saw the goals of the community health program. A very general unstructured question was followed by a series of closed questions couched in the form of statements with which they were asked to indicate the extent of their agreement. The closed questions focused on the five goal areas, a community oriented service, a co-ordinated service, and a service designed to focus on prevention, treatment and rehabilitation, identified in the Queensland Department of Health paper referred to earlier. A detailed discussion of this material has been given elsewhere

Figure X.2

EX-NUPTIAL BIRTHS AS A PROPORTION OF ALL BIRTHS IN INALA, IPSWICH AND MATCHED CONTROL COMMUNITIES BEFORE (1975) AND SINCE (1978), COMMUNITY HEALTH CENTRES

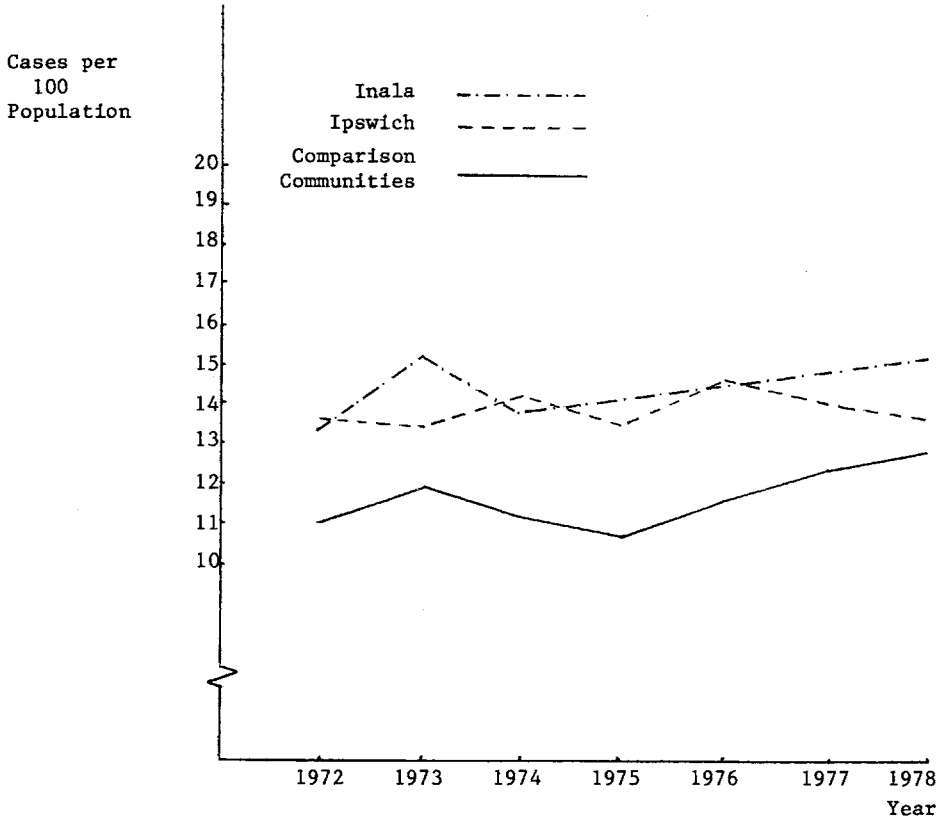


	1972	1973	1974	1975	1976	1977	1978	Average S.E.
Inala	19.8	21.8	25.3	22.7	30.3	27.3	30.0	2.7
Ipswich	8.6	9.2	7.8	10.0	10.4	11.5	12.5	0.8
Control	11.5	10.8	9.4	10.9	11.4	10.9	12.6	0.9

* All regression coefficients were not significantly different from zero.

Figure X.3

NUMBER OF CASES ADMITTED TO PUBLIC HOSPITALS (PER 100 POPULATION) IN INALA, IPSWICH AND MATCHED CONTROL COMMUNITIES BEFORE (1975) AND SINCE (1978), COMMUNITY HEALTH CENTRES



	1972	1973	1974	1975	1976	1977	1978	Average S.E.
Inala	13.6	15.2	13.9	14.1	14.5	14.8	15.2	0.26
Ipswich	13.7	13.5	14.2	13.6	14.5	14.0	13.7	0.14
Control	11.0	11.9	11.2	10.8	11.6	12.3	12.9	0.12

* Inala data indicate no trend prior to 1975 and a slightly increasing rate of hospitalisation from 1976 onwards ($p < .07$); Ipswich data indicate no trend prior to 1975 and a decrease in the hospitalisation rate from 1976 onwards ($p < .0001$); Comparison community data indicate a slight but significatn decline in hospitalisation rates until 1975 ($p < .05$) and an increasing hospitalisation rate from 1976 onwards ($p < .0001$).

(Gibson, 1980; Western *et al.*, 1980) and it is sufficient at this point to indicate the extent of support among health centre staff interviewed for the five goal areas (Table X.5).

Table X.5

GOAL INDICES: PERCENTAGE OF HEALTH CENTRE PERSONNEL STRONGLY SUPPORTING SPECIFIED COMMUNITY HEALTH PROGRAM GOALS

	South-East Queensland Urban Health Centres (n=129)
Community orientation	17
Co-ordination and Liaison	49
Prevention	35
Treatment	23
Maintenance and Rehabilitation	56

Clearly maintenance and rehabilitation get the strongest support; they are followed closely by co-ordination and liaison. Prevention occupies a middle position and treatment and community orientation get somewhat less support. These data, together with the responses to the open question led to the conclusion that 'a reasonable consensus exists among the community health program policy makers and those at the "coal face"' (Western *et al.*, 1980: p. 14). However, the point was also made that while the response suggested a common frame of reference among all involved in the delivery of the community health program it 'does not of course tell us a great deal about what actually goes on "under ground"' (Western *et al.*, 1980: p. 14).

Community health program goals as we noted earlier are quite significantly political statements and perhaps the consensus simply reflects the fact that practitioners are well trained and able to jump through the same political hoops as their masters. Clearly, to show that such an assertion is false, it is necessary to move beyond, but to try to link, the more abstract goals of the program, to the activities which characterize the community health centres' operation.

In the course of interviews with health centre staff, two questions which are relevant in this context were asked. The first concerned an estimate of the amount of time spent in the preceding working week on a number of activities. These were:

direct client-practitioner contact
client referrals
case conferences
co-ordination and liaison with other agencies
group and community work
home help services
administration
other activities such as travelling, staff education, supervising students, involvement with visitors, and so on.

Categories of: 'no time', 'less than one-quarter', 'about one-quarter', 'somewhere between one-quarter and one-half' were provided for response. A little later in the interview the practitioners were asked to estimate what proportion of contact with clients was concerned with: preventive activities or, in the terms we used, 'intervention before a serious health problem arises';

'treatment or curative activities'; 'intervention intended to cure an existing problem'; 'rehabilitation and maintenance activities'; 'intervention intended to help the client cope with a chronic problem or disability'; and finally, 'assessing the problem rather than providing any form of therapy, treatment or counselling'. The same 'time' categories were provided for response. In addition, over a period of ten working days health centre practitioners completed continuously a diary or 'daily activity schedule' which provided great detail on the activities in which they were engaged.

The consistency of information obtained from the daily activity schedule, and interviews, suggests that both are reliable sources of data about the day-to-day activities of health centre personnel. Table X.6 presents activity data in aggregate; it refers to the time spent by staff in different activities in the working week preceding the interview in which the information was obtained. As can be seen, direct client contact is the most time consuming single activity. Individual client related activities such as client referrals and case conferences take the amount of time devoted to individual clients to something over 50 per cent. Group and community work, and co-ordination and liaison contribute another 15 per cent of time; and administration and other activities together a little over one-quarter of an average week's work.

Table X.6

PERCENTAGE OF TIME SPENT BY STAFF IN DIFFERENT ACTIVITIES IN THE WEEK PRECEDING THE INTERVIEW IN WHICH THE INFORMATION WAS OBTAINED

Activity	Per Cent
Direct Client Contact	31
Client Referrals	10
Case Conference	10
Group and Community Work	7
Co-ordination and Liaison	8
Home Help Services	6
Administration	14
Other	13

From the table we can get some idea of the extent to which health centre activities are directed toward the co-ordination and liaison goal of the community health program, but very little of the activities as described can be seen as directly related to the other four goals. The impression perhaps is that treatment looms large, and that it is significantly client oriented. The issue can be somewhat clarified by examining the relationship between client contact and the practitioner's judgment as to the purpose of that contact. Some relevant data are presented in Table X.7.

Involvement in preventive activities occupied 14 per cent of practitioners' time at the Inala centre while involvement in treatment activities and maintenance and rehabilitation work occupied 32 per cent and 17 per cent of time respectively. We have not yet distinguished between community oriented activities and liaison and co-ordination, but as the table shows no more than 8 per cent of total time in the week preceding the interviews was devoted to these classes of activities. The remainder of the week was spent on activities which are not immediately and apparently goal directed. The pattern of activities displayed by the other health centres in urban areas of south-east Queensland is

Table X.7

TIME SPENT ON GOAL RELATED ACTIVITIES IN THE WEEK PRECEDING THE INTERVIEW BY HEALTH CENTRE PERSONNEL

	Per cent of Time in Average Week:	
	Inala	Other health centres in south-east Queensland
Community oriented activities) Liaison and co-ordination)	8	8
Preventive activities	14	11
Treatment activities	32	19
Maintenance and rehabilitation activities	17	34
Other non-goal directed activities	30	28

different in only two respects. Treatment occupies markedly less time, and maintenance and rehabilitative activities markedly more. This difference serves as a reminder of the presence of primary medical care at Inala but not at the other centres.

The activities of health centre personnel are clearly related to the goals of the community health program; but it is also important to note that they are markedly directed to what are in important respects traditional health care activities. To a significant extent, our data suggest that community health centres are treatment oriented in a fairly traditional way, and that the innovative goal of prevention does not receive a great deal of attention. This should perhaps come as little suprise. The main thrust of medicine, as of the therapies, social work and clinical psychology, has always been on the provision of treatment for individual patients or clients. The major emphases in the training programs that health related professionals undertake and have always undertaken have been on treatment, although there have recently started to be changes in this emphasis. The expectations of the consumers of health care services too, are for treatment for presenting conditions. One does not, it should not be necessary to say, produce change by legislative fiat. It is not possible to produce a preventive, community oriented health care service simply by saying there is going to be one. The orientations, skills and habits built up by service deliverers over years of practice need to be adjusted, as do the orientations and expectations of consumers. The idea that services might be utilized to keep one well rather than make one well is still clearly quite novel.

Client Reaction to Community Health Services

Community health centre clients are significantly not representative of the community from which they come. As a group they are older, more likely to be women, from marginally lower socio-economic backgrounds, and less likely to have established kin ties in the neighbourhood in which they live. These characteristics were displayed not only by all new clients seen at the Inala community health centre in the 1977-78 financial year, but also by the sample of

adult clients from the Inala and Ipswich centres that were interviewed in the course of the study.

It would appear from the data that community health centres are attracting as clients groups which are euphemistically and, in these times not infrequently enthusiastically, described as 'at risk'. Clearly, to the extent that they are providing facilities and services for this group, community health centres are achieving one of the important goals for which they were established. But having made that point, it is necessary to look further at the characteristics of patients, their presenting conditions, and the extent to which these conditions have been materially changed as a consequence of experiences within the health centre.

The adult sample interviewed was drawn from the group of clients seen by health centre practitioners in the ten days during which they completed the daily activity schedule. As already noted, this group comprised disproportionately older, lower socio-economic women. In the course of interviews with the entire group, information was sought about the most recent problem which brought them to the health centre. We distinguished between those who received only primary medical care, those who had received primary medical care as well as other forms of help, and those who received no primary medical care and only other forms of help.

Table X.8 provides details of adult clients and the problems they presented at their most recent visit. We distinguished between acute, chronic, preventive and psychological/social/family problems in the following way. Acute problems are infections, short-term ailments such as sprains and injuries that have no long-term effects. Chronic problems are long-term problems such as may result from injuries, strokes or disabling illness; problems associated with degenerative diseases and problems associated with chronic conditions such as diabetes, hypertension, asthma and chronic bronchitis. By preventive we mean such things as immunization, contraception, post-natal checks, Pap smears, blood pressure checks, and dental check-ups. Psychological/social/family problems include psychological disorders such as depression, marital problems, financial worries - the sort of situations in other words that most of us confront every day of our lives.

Table X.8

PROBLEM PRESENTED AT THE MOST RECENT VISIT TO THE COMMUNITY HEALTH CENTRE (ADULTS ONLY)

(Column Percentages)

Problem	Patient Type: Primary medical care clients (n=62)	Primary medical care and "other" clients (n=82)	Non-primary medical care clients (n=27)
Acute	61	37	7
Chronic	33	35	67
Preventive	4	7	4
Psychological/ Social/Family	1	20	22
Other	0	1	0

One important fact to note about the table is the extent to which clients come for primary medical care. Only 27 out of a total of 171 are looking exclusively for services of a different kind. Among those coming for primary medical care, acute problems calling for traditional treatment or curative therapies are pre-eminent. Chronic problems in need of rehabilitative or maintenance treatment programs are also common, but less frequent; problems which require preventive programs of treatment are conspicuous by their absence. The ill-defined psychological/social/family problems occur with some frequency but there is reluctance to confront solely medical practitioners with them.

It would appear from these data that clients are using the health centre in a very traditional way. They are seeking curative or supportive services for either essentially transient complaints, many of which are likely to improve on their own, or for long-term chronic conditions for which the best one can frequently hope is the short-term alleviation of pain. Despite this general trend it is clear that a number of clients have discussed certain preventive matters at some time with health centre staff (Table X.9). Questions relating to diet and nutrition are clearly the most common. There is some discussion of smoking and drinking, and some of exercise. Family planning receives little discussion and household budgeting little more. In general, these latter issues, perhaps what we might call life planning activities, are not matters which occasion a great deal of examination by community health centre practitioners and clients.

Table X.9

PERCENTAGE OF ADULT CLIENTS WHO HAVE DISCUSSED CERTAIN PROBLEMS WITH COMMUNITY HEALTH CENTRE STAFF

	Primary medical care clients (n=62)	Primary medical care and 'other' clients (n=82)	Non-primary medical care clients (n=27)
Diet and nutrition	22	27	11
Smoking or drinking	10	21	-
Exercise	12	18	11
Household budgeting	2	12	7
Family planning	9	9	4

A further set of questions about preventive health matters which had also been used in the household survey carried out at around the same time in the catchment area of the health centre, was asked of women. They concerned whether the respondents had had a Pap smear test in the last two years; whether they had had a medical examination for lumps in the breast in the last two years; whether breast self-examination was regularly practised. Table X.10 shows the extent of these preventive health activities among the women surveyed; they are marginally more common among the clients of the health centre than they are among women in the adjacent community.

Two conclusions are suggested by these data. First, it is clear that if the community health centre has an active preventive health program in this area then it is not noticeably effective. Secondly, if there are outreach programs into the community and again directed toward women, then these also are apparently not terribly efficacious. Clearly, with respect to this admittedly quite limited range of preventive health practices, the health centre does not appear to be having a great impact either on clients or on the wider community.

Table X.10

PERCENTAGE OF FEMALES IN COMMUNITY HOUSEHOLD SURVEY AND COMMUNITY HEALTH CENTRE CLIENT SAMPLE REPORTING PREVENTIVE ACTIVITIES

	Inala Community Survey Sample (n=105)	Inala PMC Clients (n=40)	Inala Mixed Clients (n=69)	Inala Non-PMC Clients (n=15)
Pap smear test in last two years	45	50	57	43
Two years or less since last medical examination for lumps in the breast	38	40	49	40
Practise breast self-examination	66	58	59	53

A further question asked of the different groups surveyed concerned knowledge of or attendance at educational programs run by the health centre. Data relating to these questions are shown in Table X.11. The small differences between the three client groups have made it possible to collapse these categories in this table. Again there are virtually no differences between the two samples. Nearly a fifth of both groups had heard about the health centre's educational programs but virtually no one had attended them. Tables X.9, X.10 and X.11 would seem to suggest that preventive health activity exists more in the mind of the policy maker than it does in the practices of either the deliverer or consumer of health related services.

Table X.11

KNOWLEDGE OF OR ATTENDANCE AT EDUCATIONAL PROGRAM RUN BY INALA COMMUNITY HEALTH CENTRE

	Inala Community Sample (n=197)	Inala Client Sample (n=180)
Heard of any course run by local community health centre in last 12 months		
Per cent YES	18	19
Attended any community health centre program		
Per cent YES	2	6

Although a range of preventive services may be somewhat marginal to the health centre's concern, there is no question but that considerable satisfaction is expressed by clients with the services that they do receive. In the course of the client interviews we asked firstly, 'How satisfied were you with the service from the community health centre?', and provided the following four

response categories: 'very satisfied', 'satisfied', 'dissatisfied' or 'very dissatisfied'. We next asked, 'How would you rate the overall quality of care provided by the community health centre?', and provided the alternatives: 'outstanding', 'good', 'adequate', and 'poor'. Later we also asked for an indication of the extent of satisfaction with staff members seen. Two-thirds of the adult client sample reported that they were very satisfied with the service they had received from the community health centre, and a further 25 per cent were 'satisfied', giving a total of 90 per cent either very satisfied or satisfied. Slightly more than one-third (39 per cent) rated the quality of care as 'outstanding', and a further 43 per cent described it as 'good'. A little over half (54 per cent) indicated that they were 'very satisfied' with the staff member seen, and a further one-third stated they were 'satisfied'.

The nature of the presenting problem seems to make some difference to the level of satisfaction but little to the client's judgment as to the quality of care received. Some data are presented in Table X.12. In general, clients are more likely to report being very satisfied with treatment than they are to judge the quality of care as outstanding. Interestingly, the intractable problems, chronic conditions and psychological, social and family problems, receive the highest satisfaction ratings.

Table X.12

PROBLEM PRESENTED AT MOST RECENT VISIT TO THE HEALTH CENTRE AND EXTENT OF SATISFACTION WITH TREATMENT RECEIVED AND JUDGMENT REGARDING THE QUALITY OF CARE

Problem		Per cent very satisfied with treatment	Per cent judging quality of care outstanding
Acute	(n=23)	64	44
Chronic	(n=69)	75	42
Preventive	(n=10)	60	40
Psychological/ Social/Family	(n=23)	74	48

X.4 CONCLUSION

This chapter has been concerned with the community health program, the normative context in which community health centres operate; the impact of the program on the community; the nature and pattern of activities of health centre staff and the manner in which these activities are related to the goals of the program and the impact of the centre on its clients.

Overall there is little discernible 'health centre effect' at the community level. Over the first three years of the existence of the community health centres the health indicators we have used (symptom rates, stillbirth and neonatal mortality rates) have not demonstrated that the trends in Ipswich or Inala differed from the comparison areas. We did not find any decrease in the rate of doctor consultations; further we have not shown that the use of paramedical services significantly increased. Ex-nuptial pregnancy rates predict infant mortality rates and the former are amenable to health outreach type of interventions. Yet, despite the very high rate of ex-nuptial pregnancies in Inala before the health centre came into operation, there is no evidence that the subsequent period was associated with a decline in ex-nuptial birth rates.

When the activities of health centre staff are examined it becomes clear that in important respects these are traditionally oriented. Thus a great deal of the practitioner's time is devoted to providing a traditional treatment service on a one-to-one basis. While the clients themselves report little involvement in preventive health programs or as having received preventive health care they report considerable satisfaction with the treatment oriented services they have demanded or received.

The analysis of the material is not yet complete and it would be premature to offer any definite conclusions as to the impact of the community health centres on the areas in which they are located. Lack of change in the aggregate measures may simply reflect the fact that three years is not a long enough time for change to become apparent. The positive health effects of giving up smoking or changing to a more nutritious diet may only become evident in the long-term. It is clear that both health centres are providing easily accessible paramedical and at Inala, medical services to an economically deprived 'at risk' population. Indeed it could be argued that the major impact of community health centres is to increase accessibility and satisfaction with a treatment oriented service. One should be reminded nevertheless that while the goals of the community health program clearly include the provision of such a service, this is only one of a series of goals in which the innovatory notion of prevention is prominent.

The community health program in Queensland is constrained by two other factors which in our final analysis of the impact of the program will need to be considered. First, political considerations have shaped the activities of community health centres in Queensland. Specifically, community involvement has been rejected by government directive and no systematic data relating to the identification of community needs have been collected. The health centres have no outreach programs because these, apparently, are inconsistent with government health policy. There are also a number of other restrictions. Health centres cannot advertise either their services or their location. The Inala and Ipswich centres open only at times when half the population (more or less) is at work and they may only offer services in areas not covered by other agencies. Thus family planning services are, by directive, not provided by either health centre. Inala, the only health centre in the State to offer primary medical care, was able to do so because private practice in the Inala area prior to the introduction of the health centre was minimal owing to the bad risk nature of the community.

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Social Welfare Finance: Selected Papers

Ronald Mendelsohn (Editor)

This volume is a collaboration between public servants and academics to analyze problems in the welfare sector, which now occupies half of all Australian governmental expenditure. Four of its chapters deal with social security, two with health, two with housing, and two are special essays in social administration. Together they lift discussion of the Australian welfare state above its previous often polemical and uninformed level towards a more dispassionate and informative plane, technical but lucid. The social security chapters cover redistributive problems; social security inside the family; the surprisingly complex relationship between social security and income taxation; and an updating of the Henderson guaranteed minimum income proposals. The health chapters place Australian expenditure in a federal and an international framework. The housing chapters deal with aspects of the public housing program. The final chapters deal with long service leave and with evaluation in the health sphere.

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