



The rise and fall of “welfare dependency” in Australia

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Outline

- Background
- What is welfare dependency? Alternative measures of dependency and reciprocity.
- Trends in benefit reciprocity in Australia
- International comparisons of benefit reciprocity
- Possible explanations for the rise and fall of welfare receipt
 - Labour market trends
 - Demographic factors
 - Policy changes
- Unanswered questions

Perspectives on welfare reciprocity

- “The point is we are reaching a fiscal tipping point. The moral tipping point is even worse. ... We could become a society where the net majority of Americans are takers not makers. ... Twenty per cent of Americans, according to the Tax Foundation, get 75 per cent of their income from the federal government, they’re dependent. Another 20 per cent of Americans get 40 per cent of their income from the federal government so they’re reliant. Today 70 per cent of Americans get more benefits from the federal government in dollar value than they pay back in taxes.” **Paul Ryan, 2011**
- The United States is now “on the verge of a symbolic threshold: the point at which more than half of all American households receive, and accept, transfer benefits from the government.” **Nicholas Eberstadt, “A Nation of Takers”, 2012.**
- “The Age of Entitlement is over. ... The entitlements bestowed on tens of millions of people by successive governments, fuelled by short-term electoral cycles and the politics of outbidding your opponents is, in essence, undermining our ability to ensure democracy, fair representation and economic sustainability for future generations. ... The age of unlimited and unfunded entitlement to government services and income support is over. It’s as over in Greece as it is in Italy, in Spain, and in the USA.” **Joe Hockey, April 2012.**
- “We have moved beyond the days of big government and big welfare, to opportunity through education and inclusion through participation”, **Julia Gillard, April 2011**

Defining welfare dependency and reciprocity

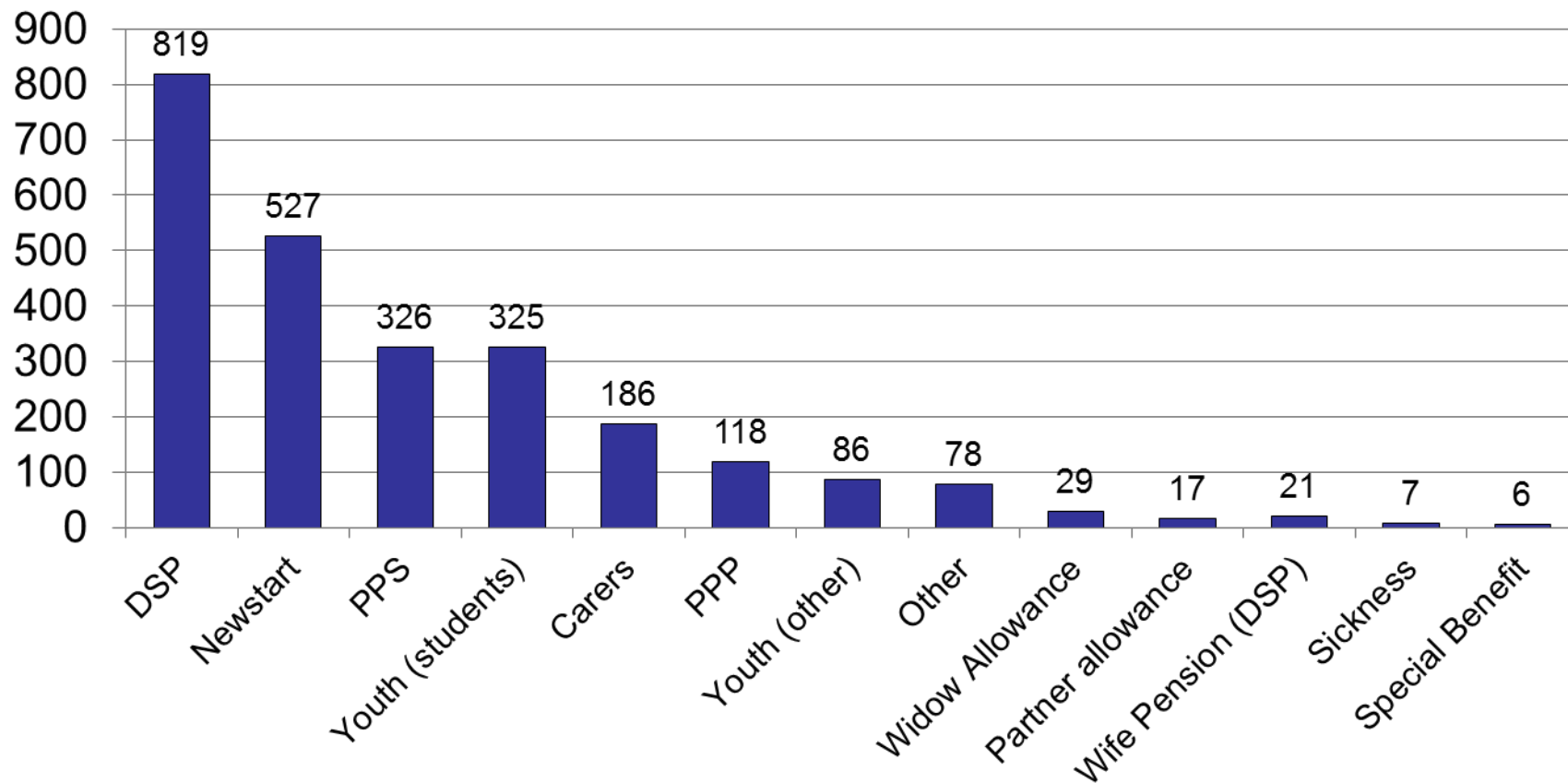
- This discussion focuses on people of working age and on receipt of cash payments (not services)
- Reciprocity can be calculated by comparing administrative data from FaHCSIA and DEEWR on numbers of beneficiaries with ABS data on population of working age
 - Need to ensure no double counting; take account of part-rates of receipt
- ABS household income surveys identify households/income units by per cent of income from government transfers (e.g. 50% plus, 90% or more)
- HILDA data also provide income shares and dynamics of receipt over time.
- Administrative panel data also capture longer run experiences on welfare payments.



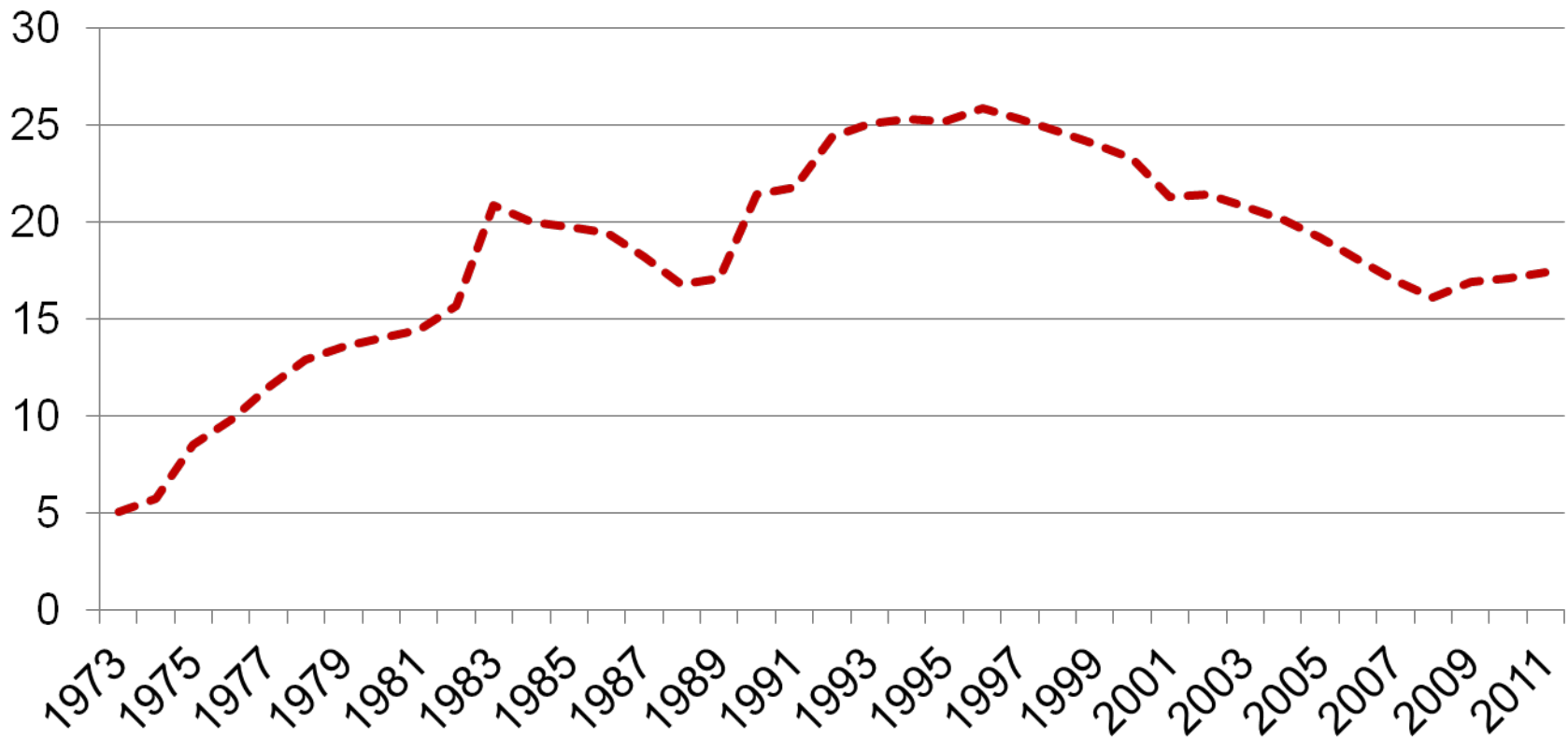
Recipient numbers and trends



Recipients (000s) of selected social security payments, Australia, 2011

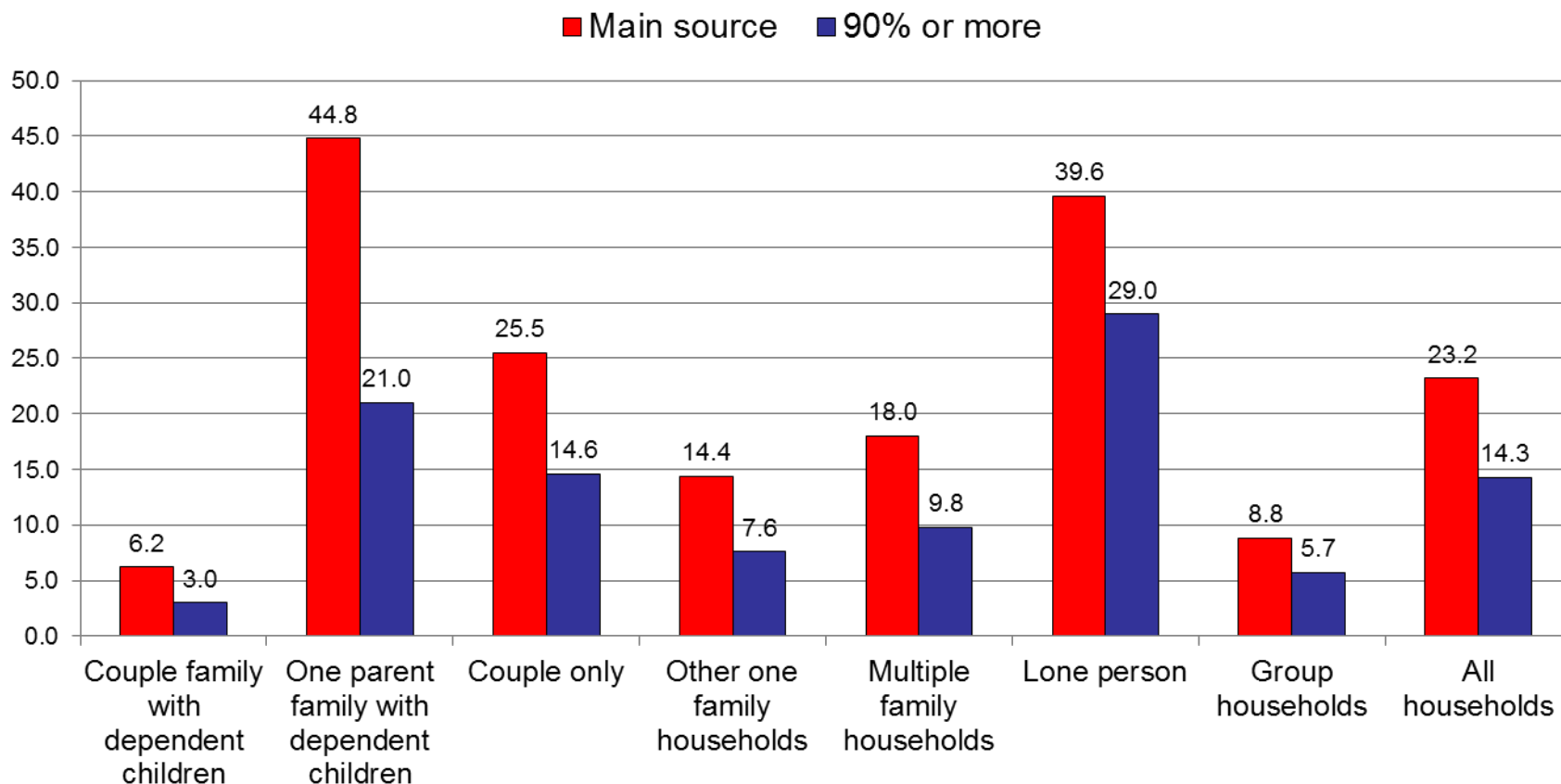


Per cent of working age population receiving social security benefits, 1973 to 2011



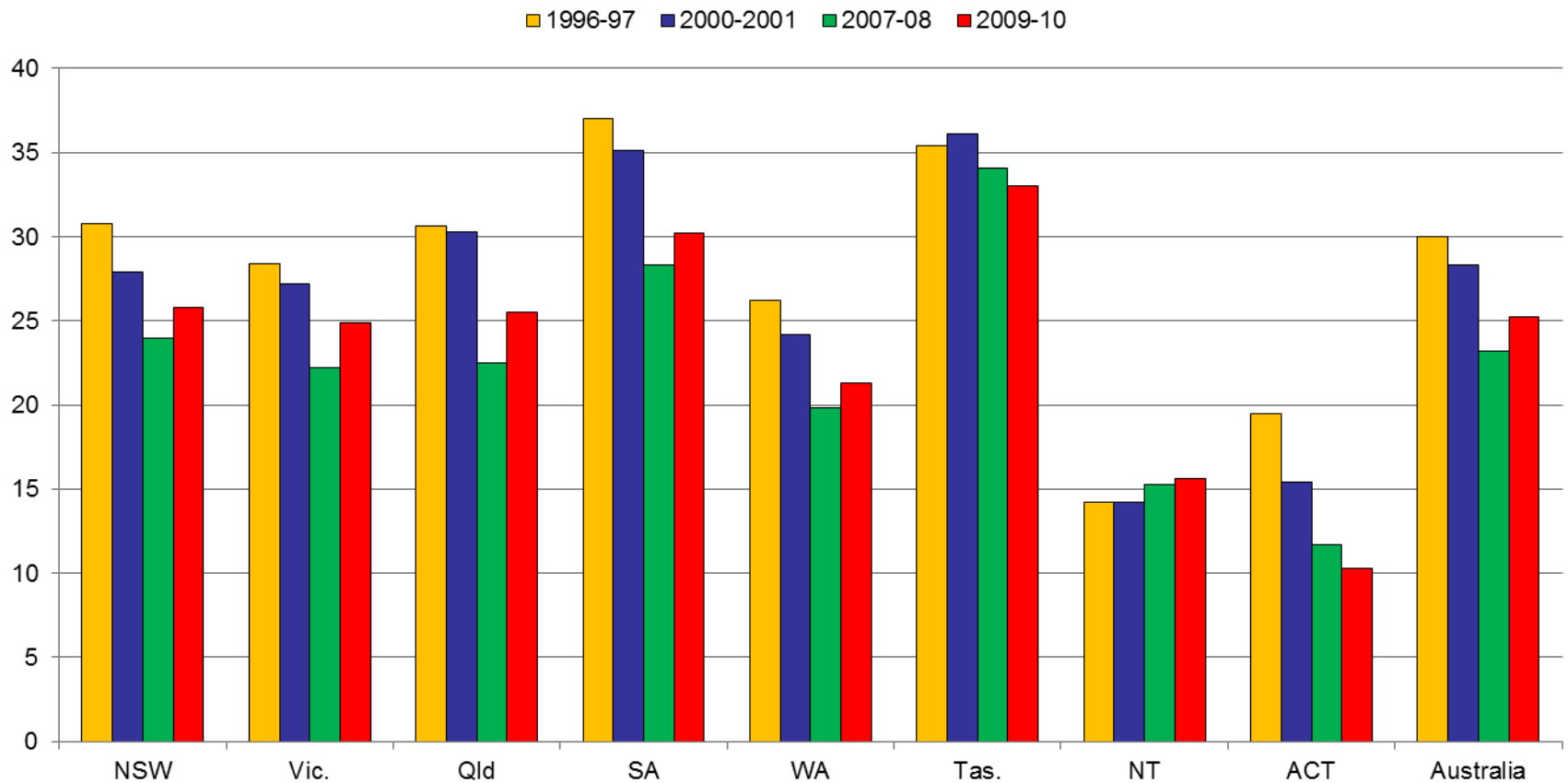
Reciprocity rates vary by household type

2009-10



Reciency rates vary by State

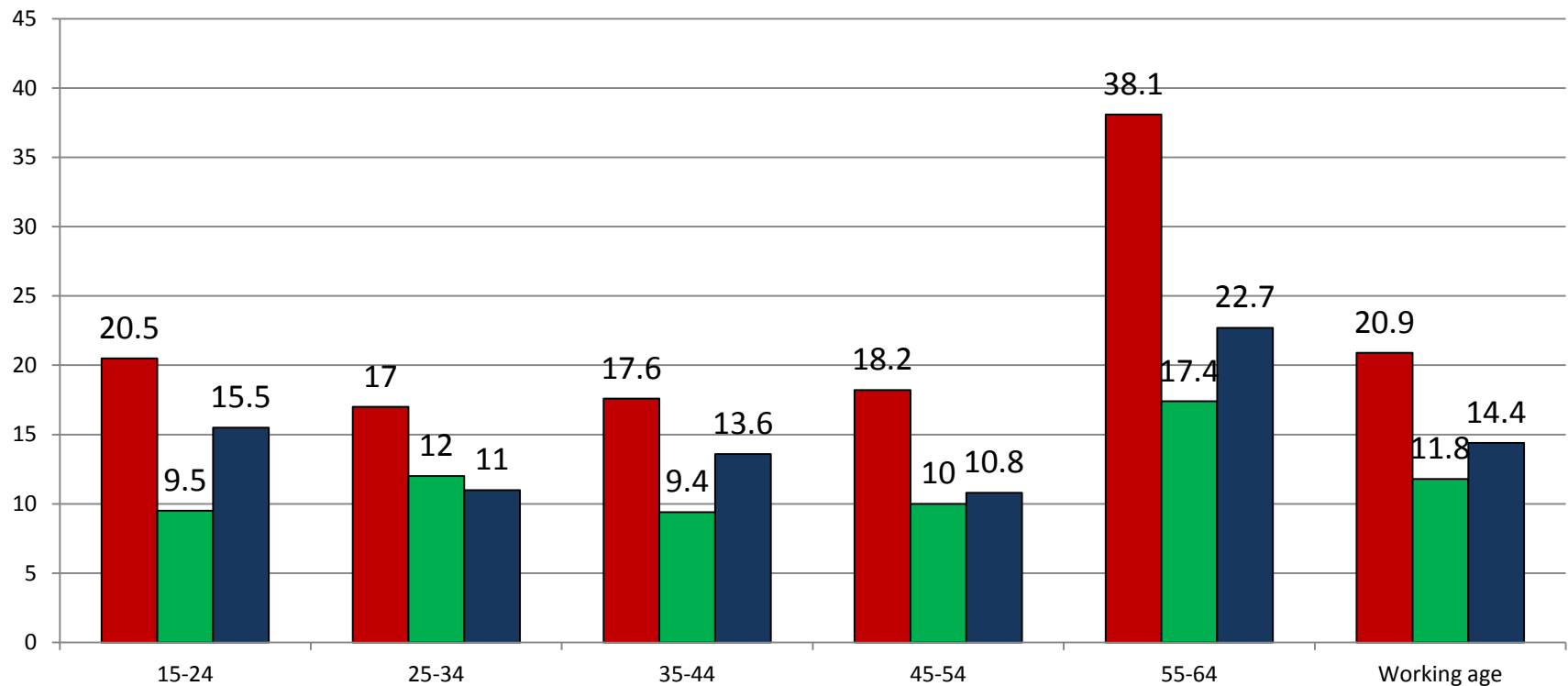
1996-97 to 2009-10



Change in working age income support recipients, 1996-97 to 2009-10

% of households with benefits as main income source by age group

■ 1996-97 ■ 2007-08 ■ 2009-10



Risks and income changes

- Around 3% of the population are fired or made redundant each year and 10% over four years;
- Around 8-9% of the population experience a serious personal injury or illness each year and 26% over four years. Between 15 and 17% of the population experience serious injury or illness to a close relative or family member each year and nearly 50% over a four year period. Around 10% experience the same each year for a close friend;
- Around 1% experience the death of a spouse or child each year, and 3% over four years. Around 11% experience the death of another close relative or family member per year, and 40% over four years;
- Around 3-4% of the population separate each year and more than 10% of women and men separated from spouse or long-term partner between 2004 and 2008. Separation or divorce is by far the most important cause of lone parenthood. Between 1% and 1.5% of the population change each year from being a couple with children to a lone parent and 4.1% over nine years.

Risks and income changes

- Between 2001 and 2008 between 40 and 50 per cent of Australians experienced a drop in income and roughly 10 per cent fell more than 20 percentiles in the income distribution.
- Over the whole period, 44 per cent of the population moved more than 20 percentiles.
- Around half of those in the richest income quintile in 2001 were still in that income group in 2008, but the other half were in lower income groups.
- Only 30 per cent of those in the middle income group in 2001 were in the same group in 2008, with 30 per cent being worse off and around 36 per cent being better off.

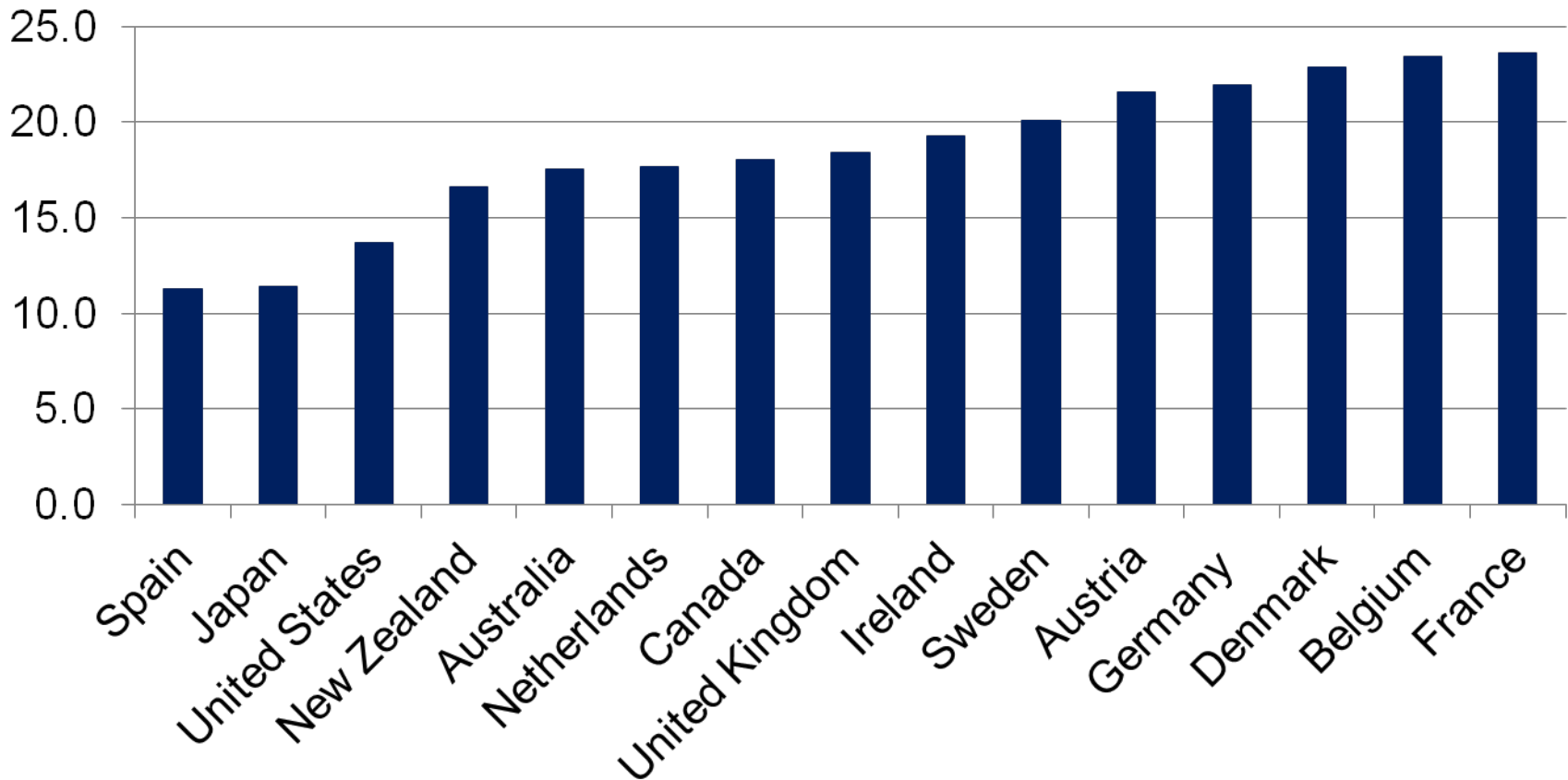
Welfare dynamics in Australia

- The proportion of working age people receiving income support at some time in the year fell from 37.1% in 2001 to 29.5% in 2008, rising to 32.8% in 2009.
- **65.7% of working age people lived in a household where someone received welfare at some time between 2001 and 2009**, with 11.4% receiving welfare payments for all 9 years.
- Those receiving 50% or more of their income from welfare fell from 12.4 to 10.5% between 2001 and 2009. Around 23% received more than half their income from welfare at some stage, but 6.8% for 5 to 8 years and 3% for all 9 years.
- For those receiving more than 90% of their income from welfare, annual receipt fell from 7.2 to 5.2%, with 15% of the population being welfare reliant at some stage in the period and 1.2% reliant for all 9 years.

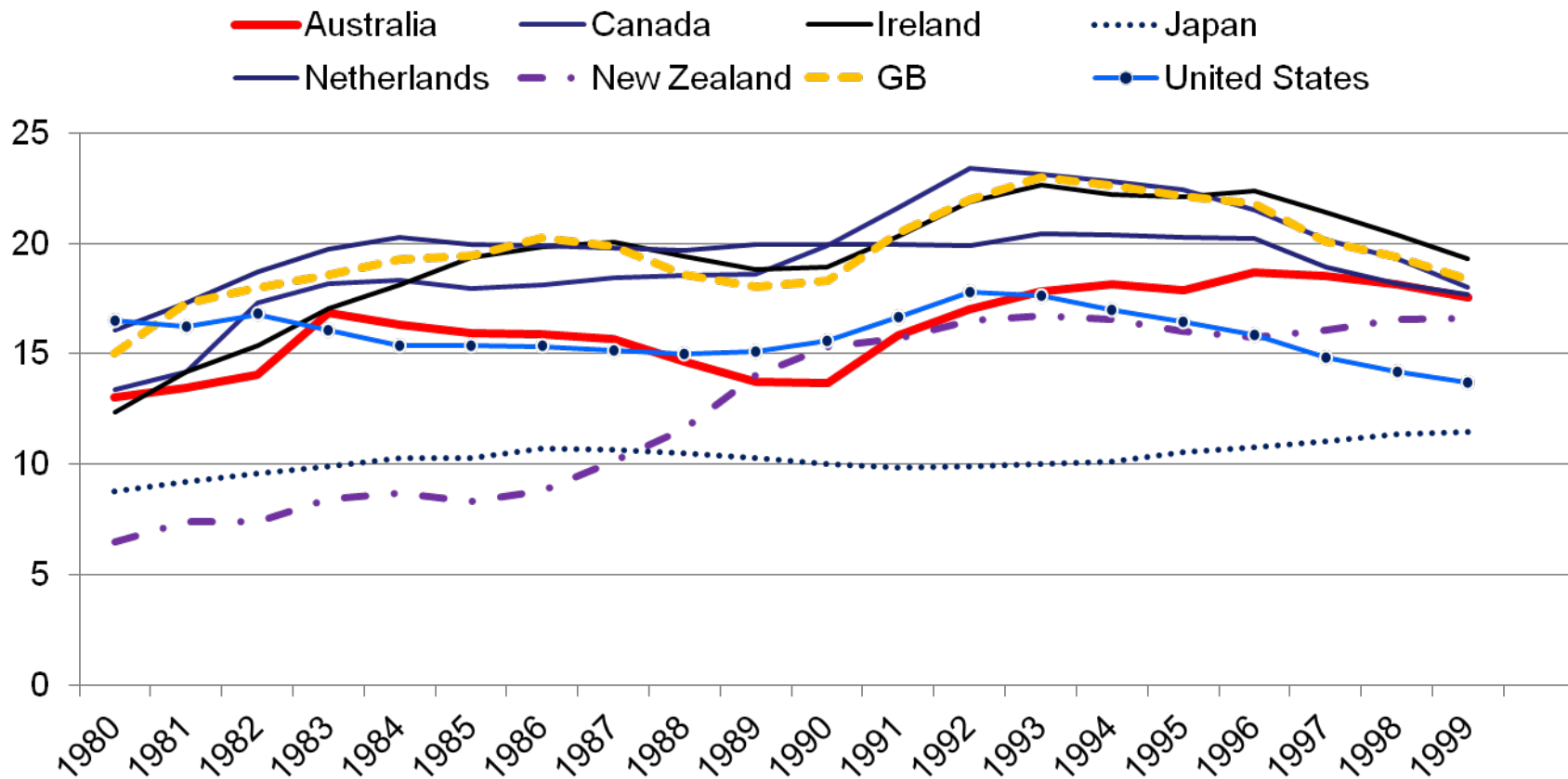
International comparisons of benefit reciency

Benefit receipt among people of working age, selected OECD countries, 1999

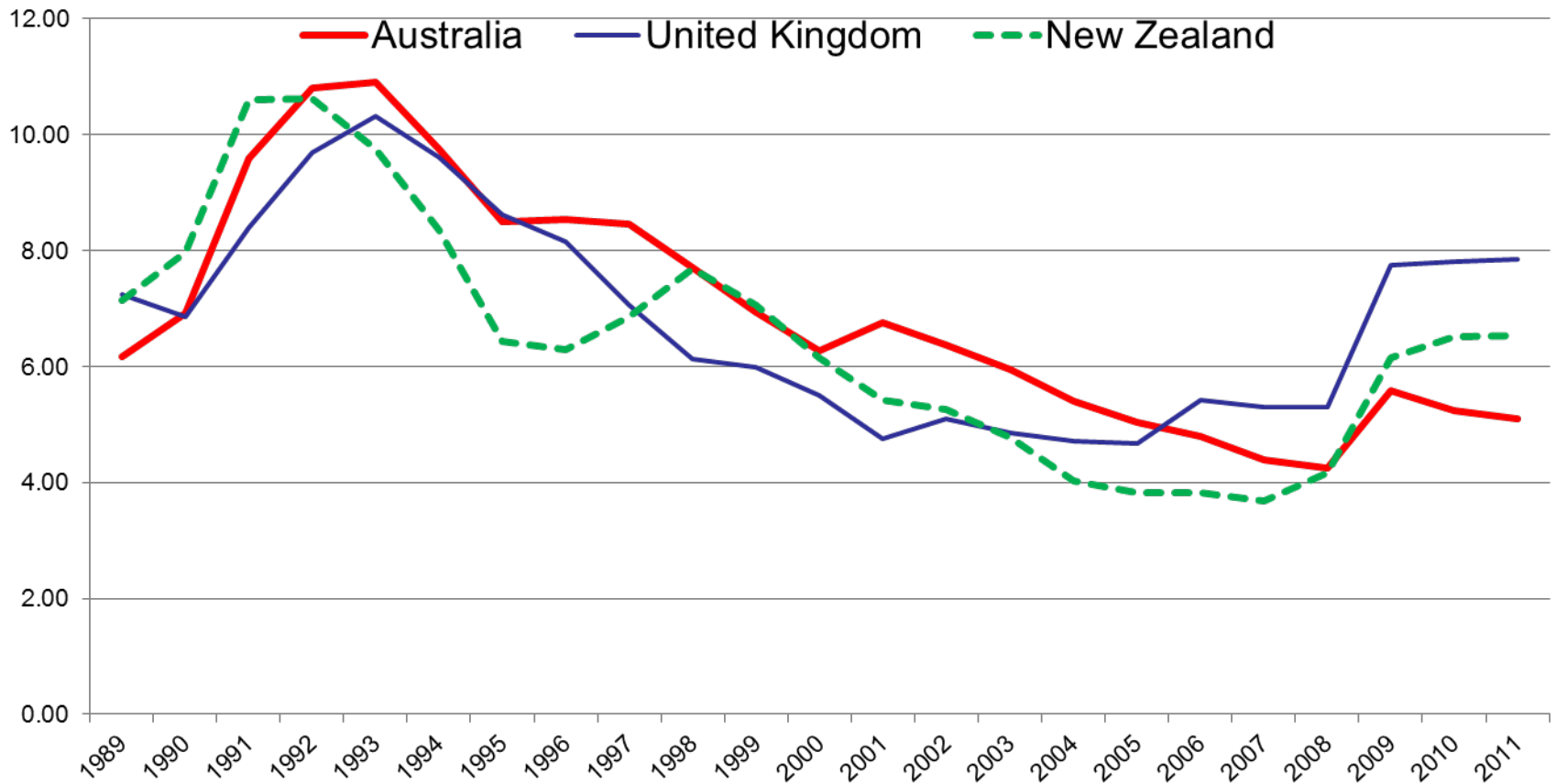
All recipients as % of population of working age



Trends in benefit recipiency rates, selected OECD countries, 1980 to 1999

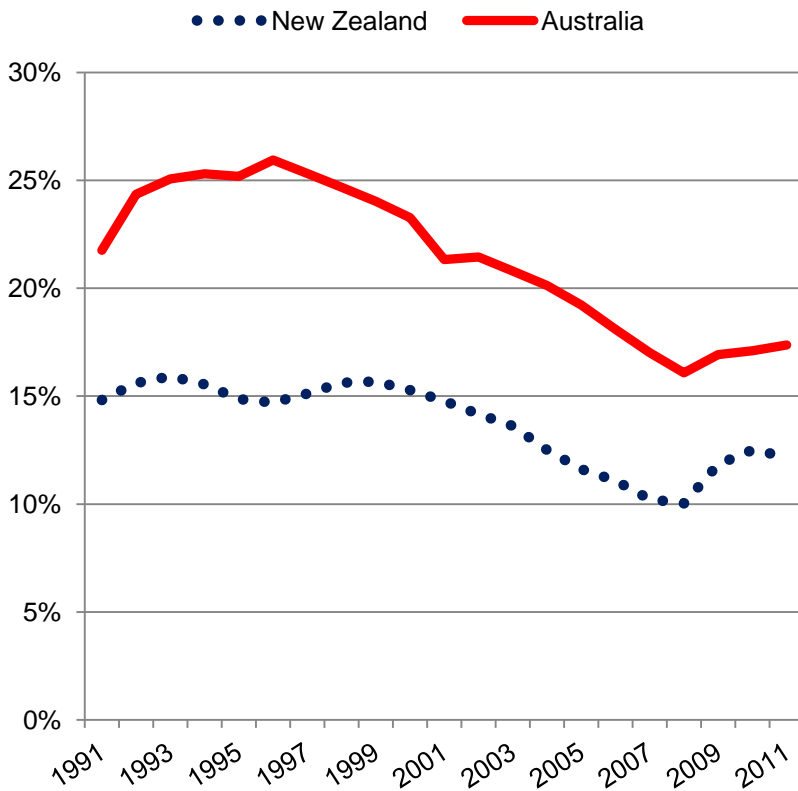


Trends in unemployment rates, Australia, New Zealand and the United Kingdom, 1989 to 2011

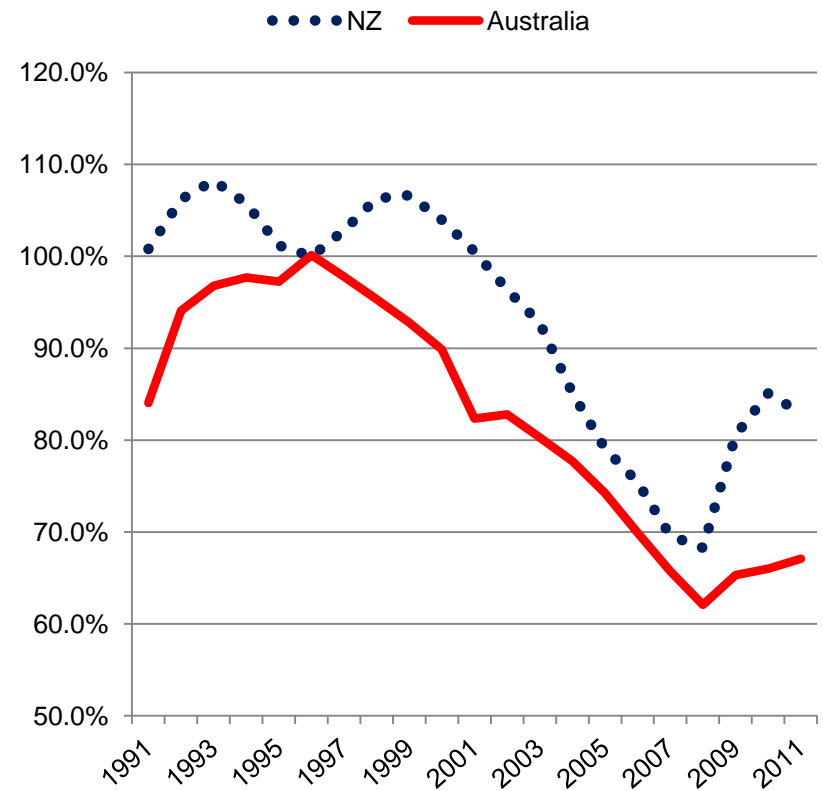


Australia and New Zealand – on similar paths?

% of working age population receiving income support

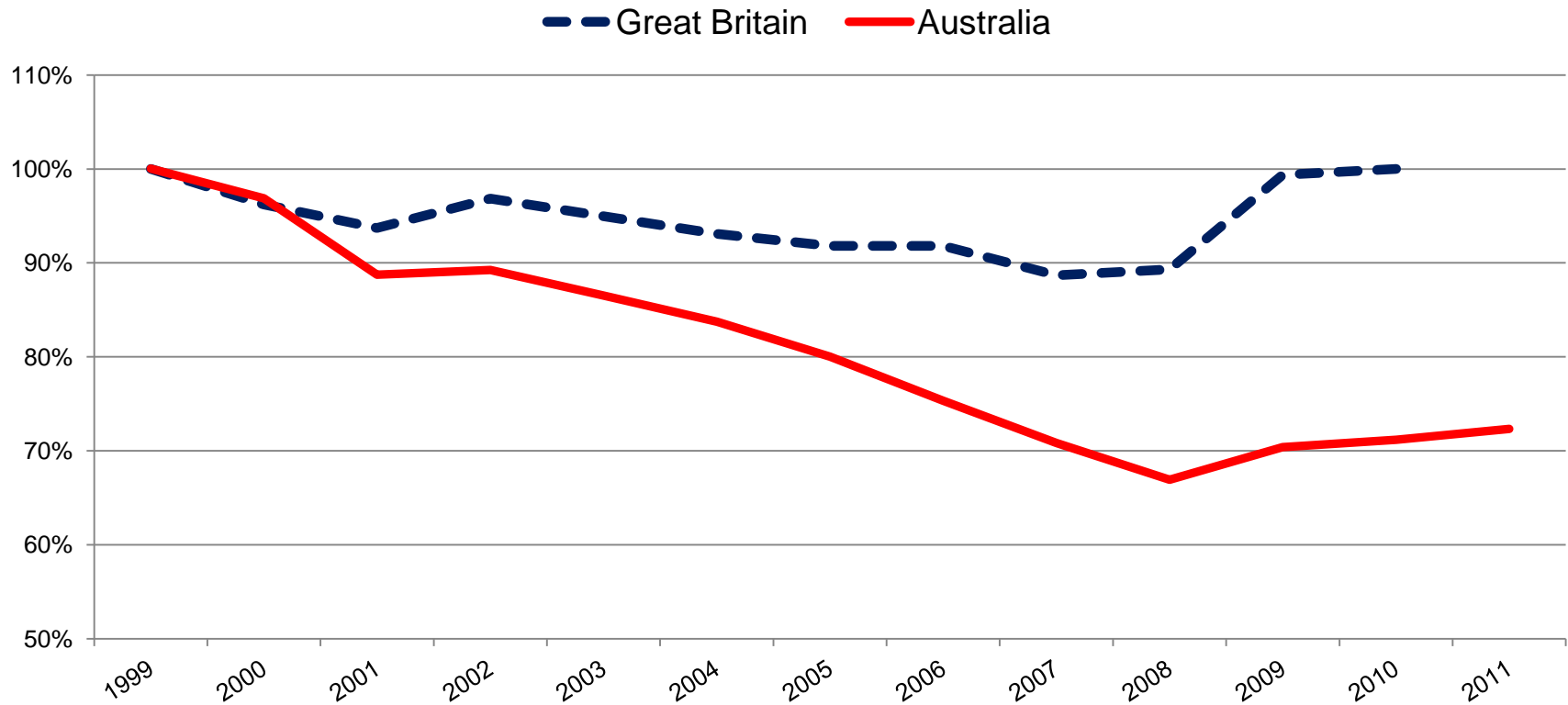


% of working age population receiving income support – 1996=100



Australia and Great Britain— on different paths?

% of working age population receiving income support – 1999=100



The responsiveness of benefit receipt to falls in unemployment varies across countries

- Between 1999 and 2005, for every 1.0 percentage point fall in the unemployment rate, benefit receipt fell by 0.73 percentage points in Australia, 0.56 percentage points in New Zealand and 0.38 percentage points in the United Kingdom.

Explanations for the rise and fall of benefit recipiency

- Labour market trends
- Demographic and family change
- Policy change

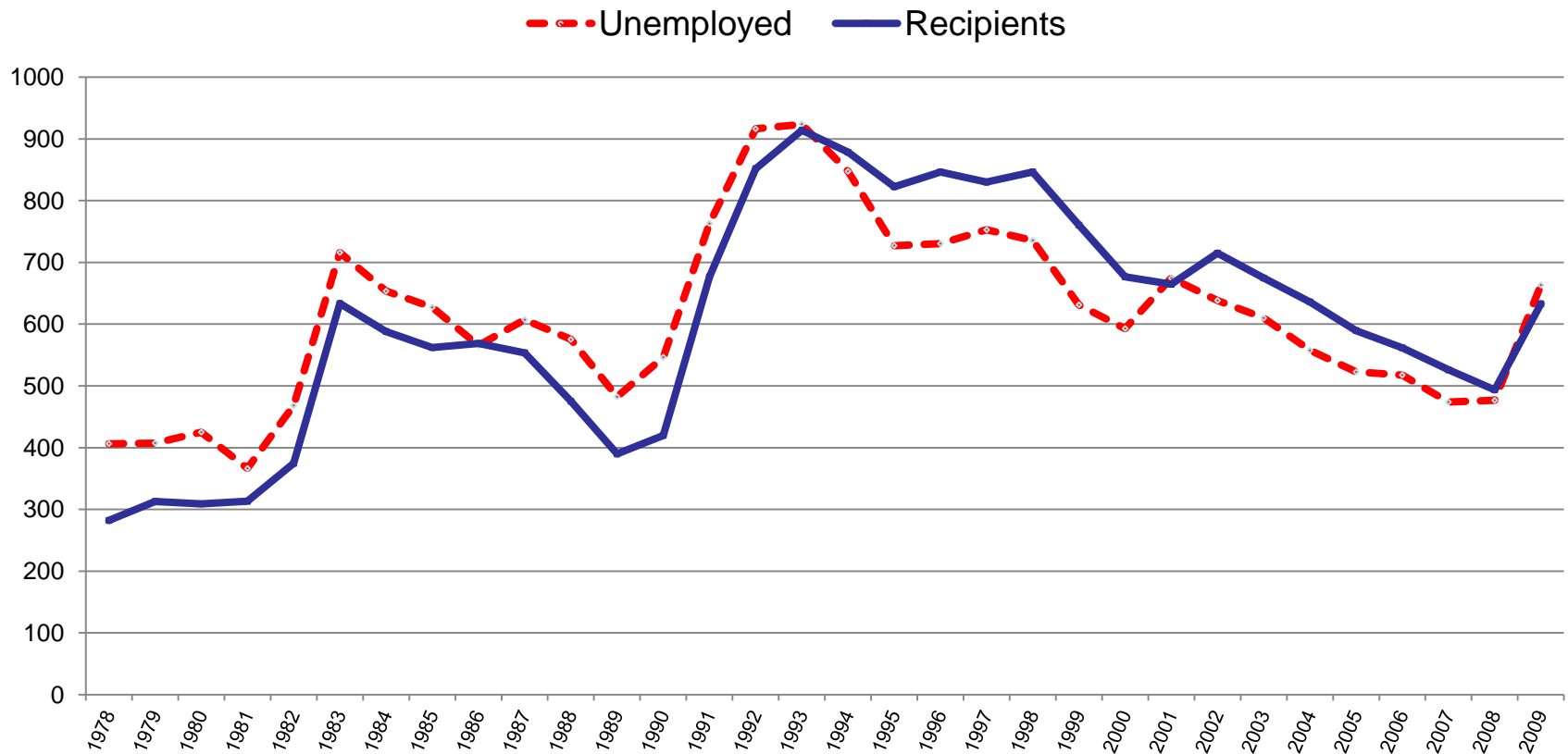
The role of labour market trends

- Unemployment was generally low from 1945 to the 1970s, mainly below 2% of the labour force and the average duration of unemployment was around 6 weeks.
- Following the oil price shock of the 1970s unemployment doubled to 4.6% between 1974 and 1975, and rose to over 6% in 1978.
- The recession of the 1980s saw a peak unemployment rate of 9.9% in 1983, followed by a decline but an increase from 5.7% to 11% between 1989 and 1993.
- Unemployment declined after 1998 so that by February 2008 it was 4% the lowest level since 1974.
- Since the GFC, unemployment has increased – but by much less than in the USA or Europe, and it currently remains around 5%.
- Australia now has the 6th lowest unemployment rate in the OECD.

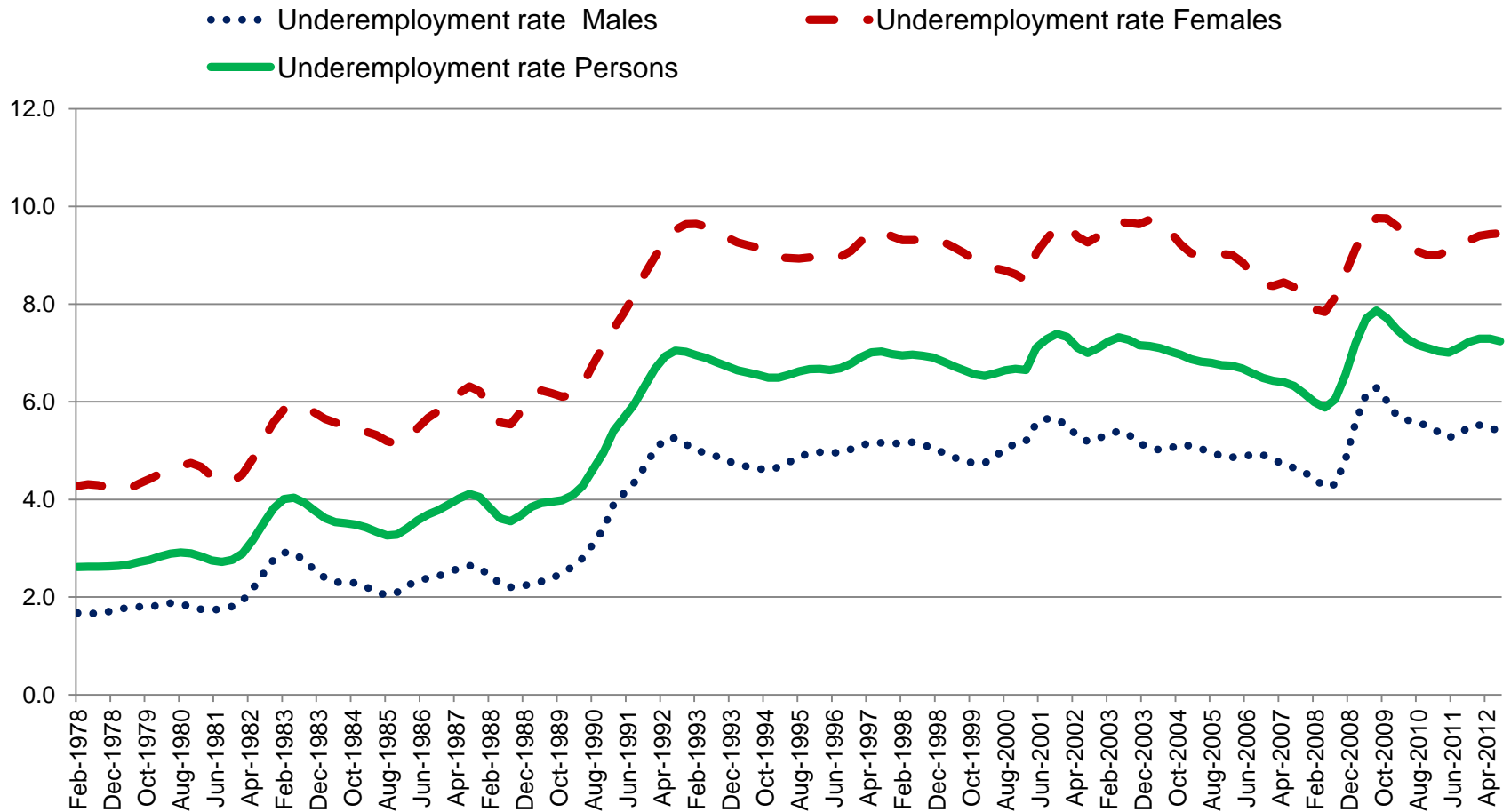
How does Australia's employment performance compare?

- In 2012 Australian employment rates overall are the 9th highest in the OECD.
- In contrast, employment for youth (15 to 24 years), Australia is ranked 4th highest among OECD countries.
- The level of part-time employment is the third highest in the OECD after the Netherlands and Switzerland.
 - Around 29 per cent of the workforce are employed part-time. Most part-time workers are women — around 72 per cent. Around 46 per cent of female employees and 15 per cent of male employees participate on a part-time basis.
- Involuntary part-time employment – 7.2% of the labour force and 30% of part-time workers is the highest in the OECD (2.9% is OECD average and 17% of PT workers).
- Employment rates among lone parents are among the lowest in the OECD.
- Total joblessness among families with children is among the highest in the OECD – but may have improved in ranking terms.

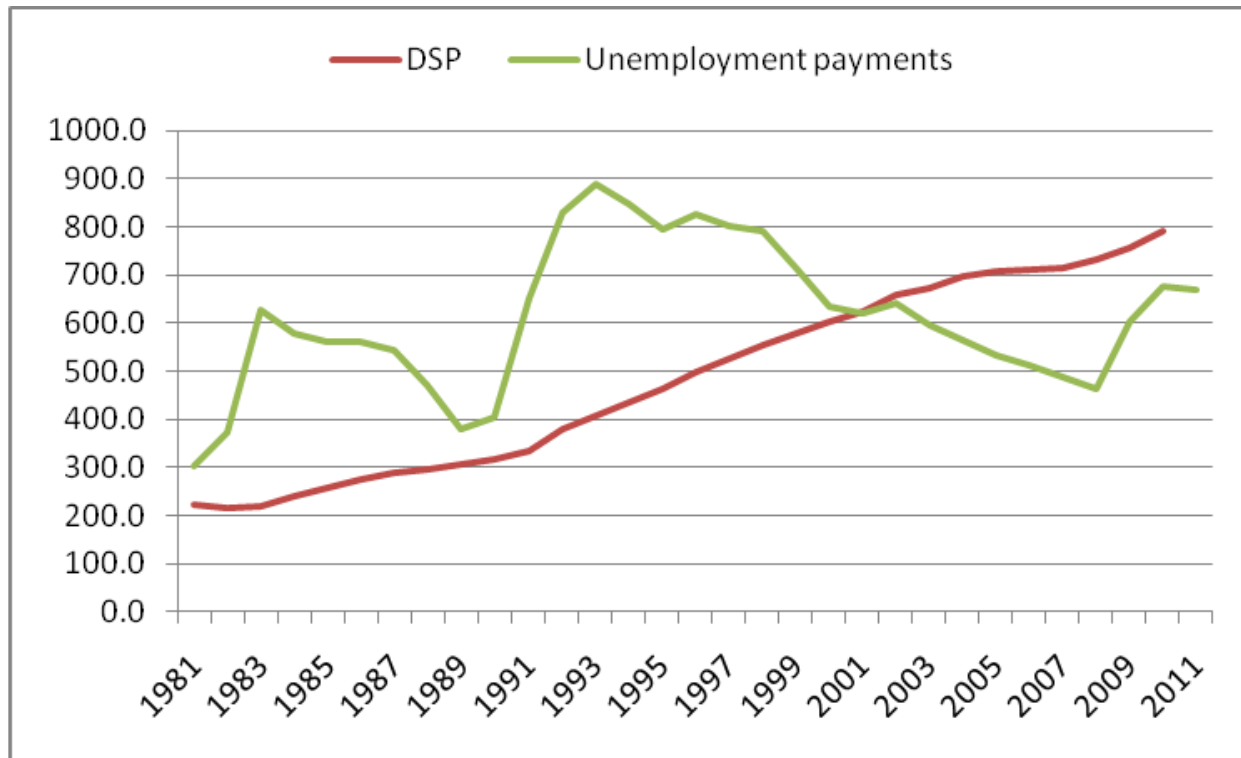
Trends in the number (000s) of unemployed and unemployment benefit recipients, 1978 to 2009



Trends in underemployment, 1978 to 2012



Trends in the number (000s) of recipients of Disability Support Pension and Unemployment payments, 1981 to 2011



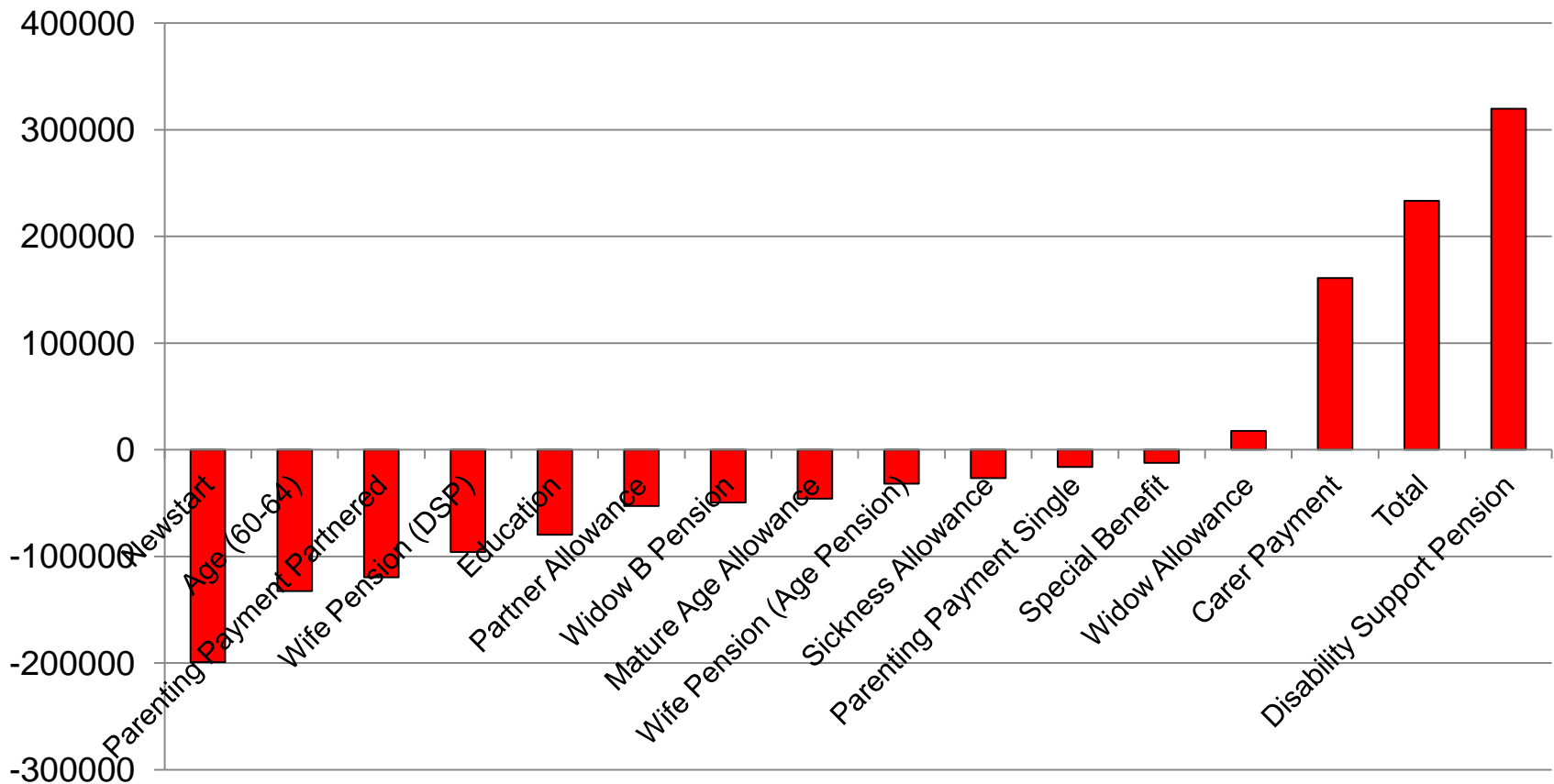
The Australian welfare system has been extensively reformed since the 1980s

- Liberalisation of unemployment benefit income tests in the 1980s.
- Following the recession of the early 1990s, the benefit system for the unemployed was partially individualised and “dependency payments” – for spouses (usually wives) of recipients started to be phased out.
- The pension age for women was gradually increased from 60 to 65 years.
- The Coalition government from 1996 increased family assistance particularly for one-earner families, and also increased assistance again after 2000 when the GST was introduced.
- Activation policies for working-age welfare recipients were increased for the unemployed after 1996 and extended to parents from 2006.
- Since 2007 the Labor government targeted more tightly a number of family payments.
- Age and disability and carer pensions were significantly increased in 2009 and the withdrawal rate on payments was increased from 40 to 50%.
- The age pension age will be gradually increased from 65 to 67 years between 2017 and 2023

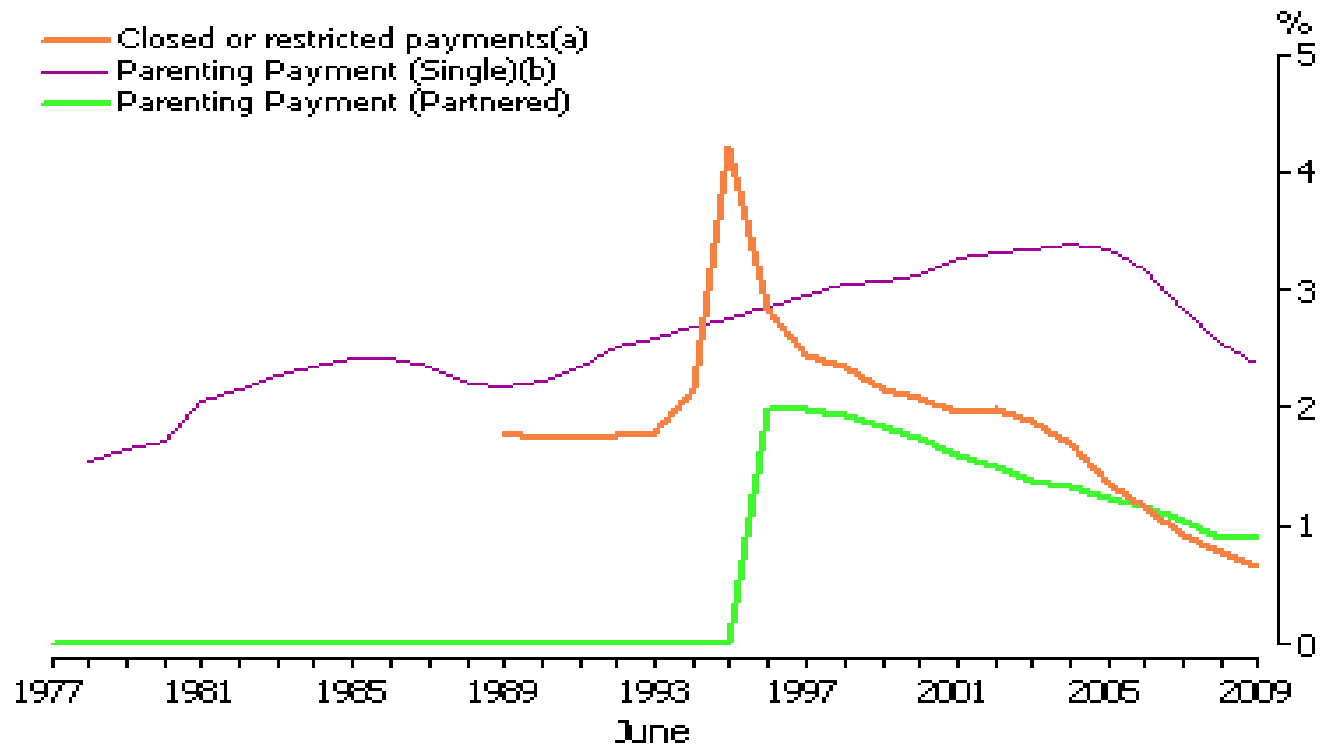
Changes to “dependency” payments

- Access to Widow B Pension was limited in 1987, and then closed to new entrants in 1997.
- Wife Pension was closed to new entrants in 1995.
- Partner Allowance and Mature Age Allowance were both closed to new claimants in 2003, and by 2008 there were no longer any recipients of Mature Age Allowance.
- Since 2005, new grants of Widow Allowance have been limited to women born on or before 1 July 1955.
- In combination with the partial individualisation of benefit payments, this has significantly reduced the effect of assuming dependency within the household.

Change in number of working age income support recipients, 1996 to 2011



Which change is more important?



Two for the price of one?

- Work of Bob Gregory – “Australian Welfare reform: Lessons I have learnt? Shifting beliefs and discovery”.
- Married men not directly affected by phasing out of dependency payments, but their behaviour may change if their partner cannot receive a payment.
- The “cross gender effect” – gender substitution occurs when both members of a married couple are affected by a policy change that formally only applies to one.
- Was this reinforced by longer run changes in characteristics of cohorts – rising educational attainment of men and women and increasing participation of women?

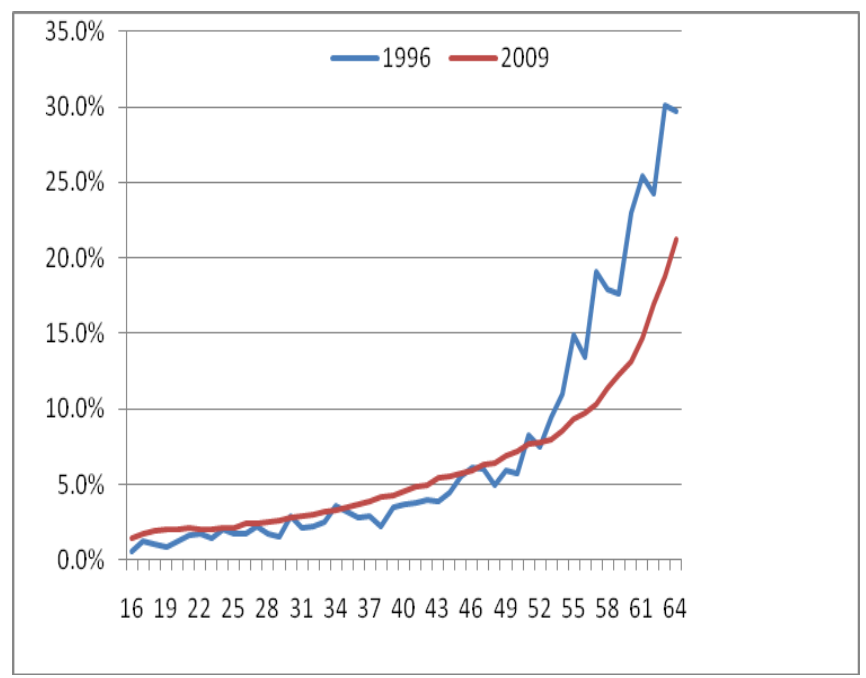
Demographic influences – changes in cohort size

- Since the 1970s there have been significant changes in family formation – lone parents as a percentage of families with children have grown, while employment of partnered mothers increased – leading to a polarisation of family economic circumstances
- Up until 1997, changes in cohort size tended to lower rates of DSP receipt; since 1997 population ageing has tended to increase numbers on DSP.
- Decomposition analysis of several other Commonwealth income support categories identifies that population ageing up to the mid-1990s had very little effect on any payment category other than Age Pension, and then only for females (Whiteford & Jackson 1998). By contrast, in a manner almost identical to that for the DSP, population ageing, or more accurately, changes in cohort size, has partially contained the demand for, or growth in, spending on unemployment related allowances.
- Since the early 1980s changes in cohort size have had a small additive effect on the numbers of females receiving the Supporting Parent/Sole Parent Pension, (SPP) the reason being that the age group with the highest incidence of SPP receipt (30–39 year olds) has also been the largest age group in the population because it contains the peak baby boomers. In fact the age-effect is very small (in the late 1990s accounting for less than 4 per cent of growth in numbers since 1975).

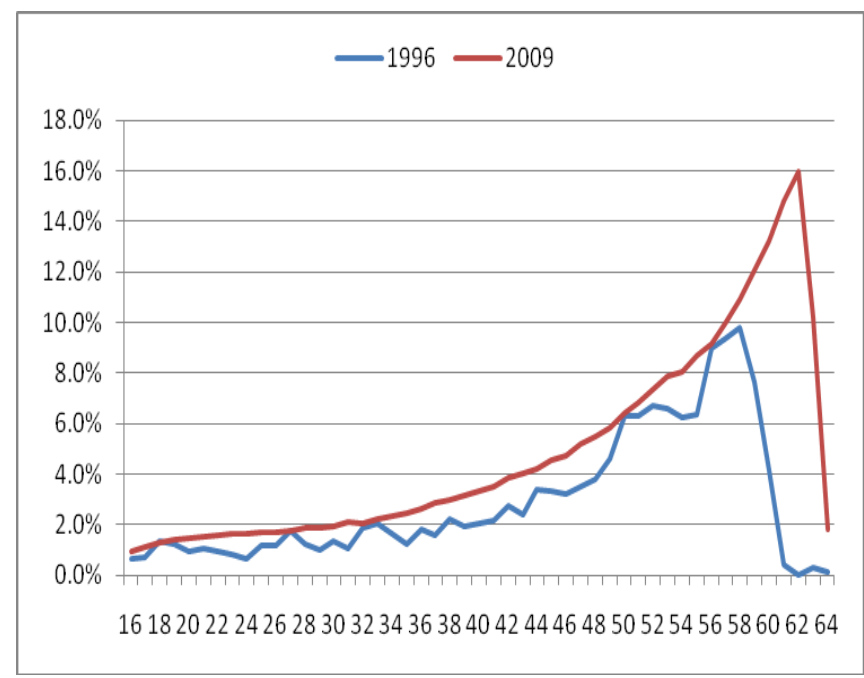


Rates of DSP receipt have fallen at older ages for men and risen for women

Men



Women



Rising DSP receipt – population ageing and policy change

- Disability and receipt of DSP are strongly age-related. In 2009, less than 2% of people aged 16 to 29 received DSP, but this rises with age to 5% of people in their 40s, 9% of people in their 50s and over 14% of people aged 60 to 64 years. Disability rises further with increasing age over 65 years, but after 65 most people are entitled to an Age Pension and DSP is currently no longer relevant.
- The age structure of the Australian population has changed significantly in the last 15 years. This is an effect of the ageing of the baby boom generation, conventionally dated to those born between 1946 and the early to middle-1960s. By definition, people born in 1946 started to turn 50 years of age in 1996, so in contrast with the earlier period, changes in the age structure of the population became likely to increase levels of receipt of DSP after the middle of the 1990s.
- Between 1996 and 2009 the proportion of people of working age receiving DSP rose from 4.3% to 5.1%. If the age-structure of the population was held constant at 1996 shares, then rather than there being 5.1% of the population receiving DSP there would be 4.7%. This means that about half of the total increase in numbers can be viewed as the result of population ageing and **may** in itself be unrelated to any changes in the labour market, the incidence of disability or individual behaviour.

Rising DSP receipt – population ageing and policy change

- For women, age-specific rates have increased at virtually all age groups (converging towards those of men), but after the age of 50 years they have increased more significantly, most strongly for women aged 63 years, where the increase has been 16 percentage points.
- Overall, women aged 60 to 64 years are the fastest growing group of DSP recipients and DSP recipients are now close to 30% of all the women in this age group receiving social security benefits, whereas in 1996 they accounted for only 1.4% of all welfare recipients in this age group.
- But while receipt of DSP in this group has “skyrocketed”, total welfare receipt has plummeted: in 1996 68% of women aged 60 to 64 years were receiving a social welfare payment, while in 2009 this had fallen to 39%.
- So welfare reciprocity for this group has actually fallen significantly – it’s just that more of this (smaller) group are now on DSP.

Unanswered questions?

- This discussion has been largely descriptive – more formal research using administrative panels and HILDA as well as demographic methods will throw further light on welfare reciprocity trends.
- We also need analysis to determine outcomes of welfare reforms – to what extent are former recipients better-off financially and in broader wellbeing terms and what happens to those remaining on benefits? Do some people “drop out” of the system and what does this mean?
- What factors are important for very long-term welfare receipt? Is receipt transmitted between parents and children?
- International comparisons may throw further light on causal factors – why has the responsiveness of receipt to unemployment been greater in Australia?
- To what extent was the timing of reforms fortuitous – are these reforms able to be replicated elsewhere or in the future?

Future challenges

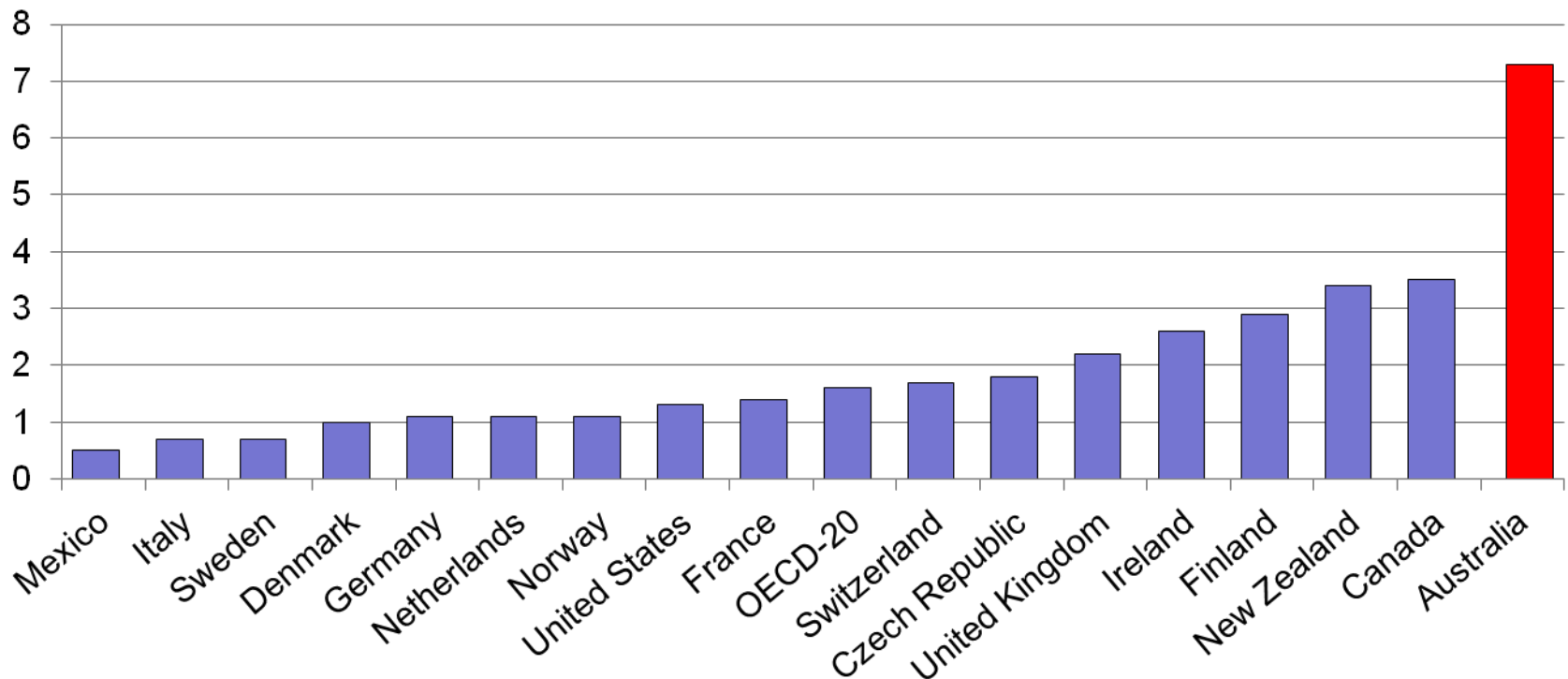
- While reduced, a significant proportion of the working age population continue to rely mainly on benefits for their incomes – it is desirable for equity reasons and sustainability to reduce this, but we should also be concerned that further reforms really do improve equity in outcomes.
- Australia – so far – seems to have escaped a major economic downturn from the “Great Recession”. This is a very major advantage in facing future challenges.
- Population ageing will soon start to have a much more significant impact on the costs of the system.
- There are significant unmet needs – with proposed reforms to introduce greater funding for disability services, for aged care and nursing homes, for dental care and to improve equity in the education system.
- Indexation provisions for unemployment benefits are inadequate as are benefit levels.



Additional material

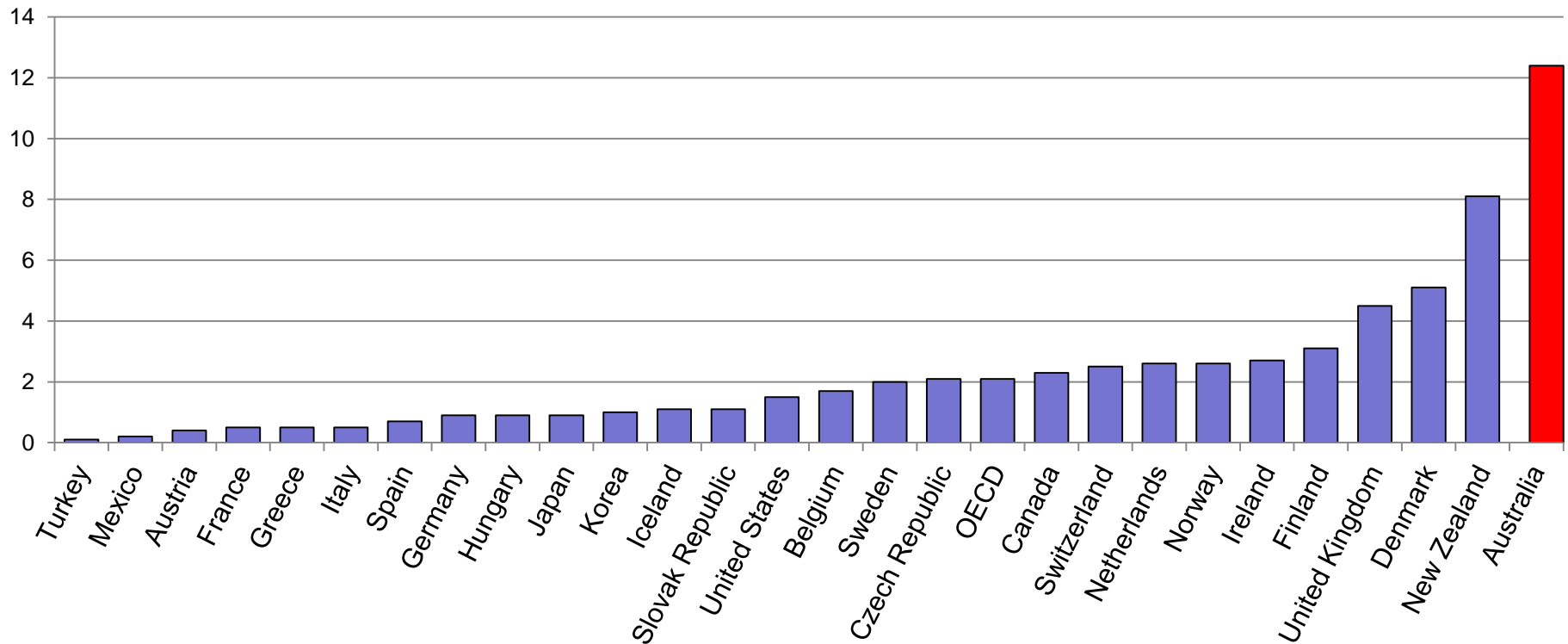
Australia relies on income-testing more than any other OECD country

% of GDP spent on income-tested benefits, mid-2000s



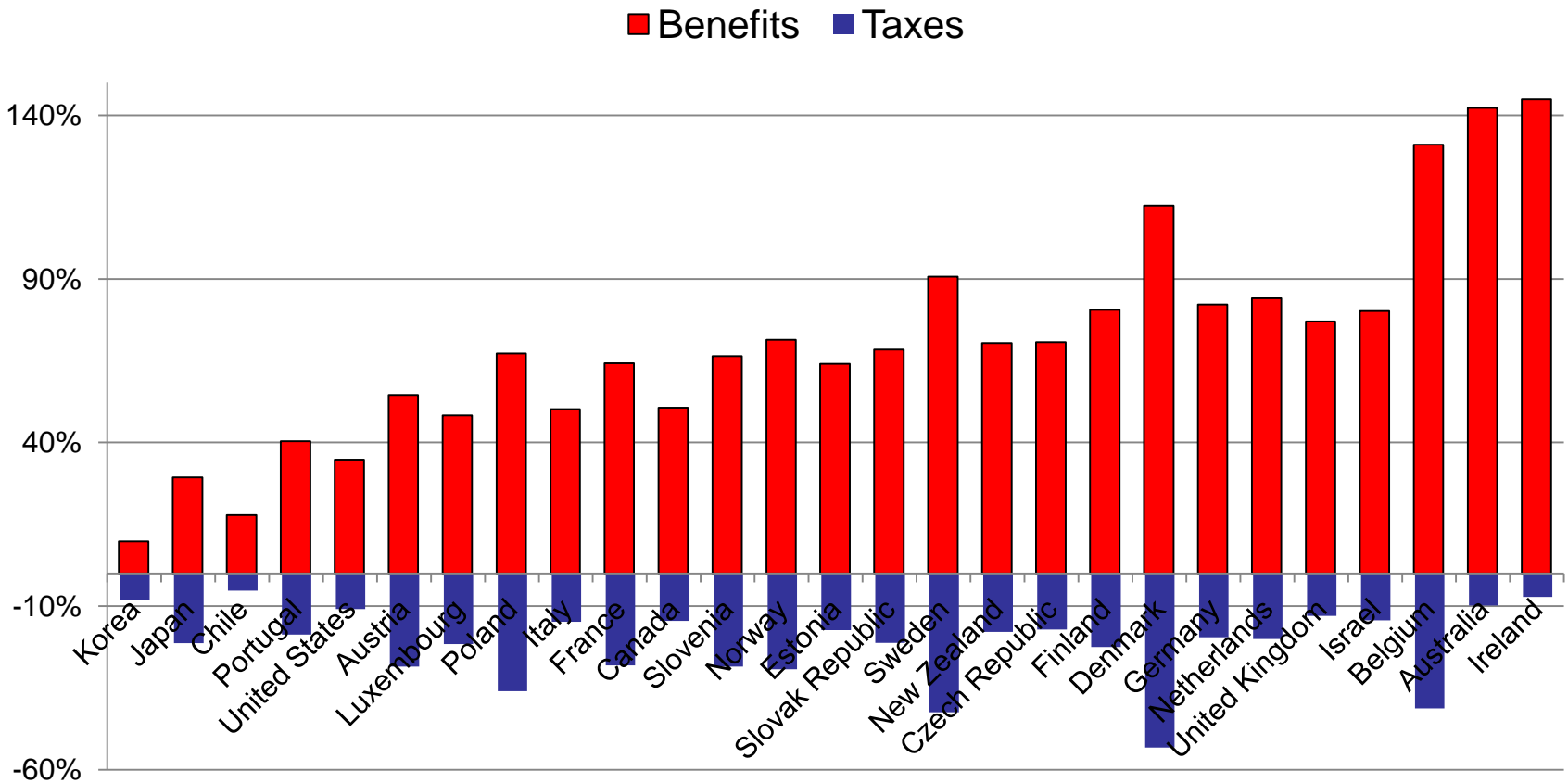
Australia has the most progressive benefit system in the OECD

Ratio of benefits received by poorest quintile to benefits received by richest quintile, total population, mid 2000s



Net transfers to the poorest quintile are highest in Ireland and Australia

Transfers and taxes as per cent of market income of poorest quintile



Increased transfer spending compensated for income losses in market income in the 1990s recession

Real change (2009-10 \$pw) in income by decile, population of working age



Unemployment benefit recipiency rates in OECD countries and emerging economies

Percentage of total unemployed, 2007/08

