



THE SHIFTING BOUNDARIES OF SOCIAL WELFARE IN THE AUSTRALIAN FEDERATION¹

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ABSTRACT Since the fall of the Whitlam government in 1975, budgetary policy of the Commonwealth has been framed generally in the context of fiscal restraint. The need to fight inflation by reducing budget outlays and deficits remained a constant theme with the Commonwealth governments under Prime Ministers Fraser, Hawke and Keating. Commonwealth payments to the States, having reached high levels during the Whitlam years, were targeted for restraint throughout the subsequent period. A distinctive feature of the measures adopted for this purpose by the Fraser governments was the sharp reduction in the specific purpose payments to the States, while several guarantee provisions protected the growth of general-purpose payments. In contrast, as the Hawke-Keating governments applied cuts mainly to general-purpose payments, the share of specific purpose grants increased to more than half of total payments by 1994-95. At the same time, the States' share of public sector outlays on social welfare has increased relative to that of the Commonwealth, especially in the past decade. This shift in the fiscal boundaries of the Commonwealth and the States is examined in this paper. The long-term sustainability of the emerging boundaries is questioned, particularly in the absence of a corresponding extension of their revenue resources. Questions are also raised regarding the possible impact of interstate differences in welfare expenditure on interstate migration.

1. INTRODUCTION

This paper examines the changes in the role of State Governments in social policy during the past two decades. This period witnessed profound changes in Australia's economy and society. On the one hand, the period was characterised by unprecedented economic and financial de-regulation, with the role of the public sector progressively receding from many areas of public policy. On the other hand, unemployment continued to rise for most of the period, longer-term unemployment rose to become a major problem, both poverty and income inequality increased, as

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did public sector outlays on social security and welfare.

Within the shrinking Australian public sector, fiscal centralisation in the public sector increased, particularly between 1986 and 1995. Commonwealth payments to the States fell sharply as a share of Gross Domestic Product (GDP), and as a share of Commonwealth revenues and outlays. Specific purpose payments increased at the cost of general-purpose funds, and exceeded 50 per cent of total payments to the States in 1994-95 (see Mathews and Grewal, 1997 for detailed discussion of these changes).

In the midst of this fundamental transformation of Australia's economy, public sector outlays on social policy increased significantly in total and by the State governments. These outlays include social security and welfare benefits paid to the elderly, families and children, the unemployed and other disadvantaged groups.

In documenting these changes, the increasing role of the States in social welfare is examined in this paper, along with significant differences in spending by individual States. Questions are also raised about the desirability and the sustainability of the emerging decentralisation of social policy in Australia implied by these trends.

2. FISCAL RESTRAINT

After the rate of inflation had climbed to 16.9 per cent in 1974-75, the Whitlam government in its last budget (the 1975-76 budget), reduced the rate of increase in Commonwealth outlays from 20.4 per cent in 1974-75 to 5.2 per cent. As can be seen in Figure 1, the Fraser government as a part of its strategy of fighting inflation, adopted a far more severe program of fiscal restraint. Commonwealth outlays fell in real terms in two of the six Fraser budgets – until then this was an unprecedented experience in Australia's post-war history, which would be repeated with increased ferocity in the mid 1980s by the Hawke government.

Although the pre-election budget of 1982-83 was predictably expansionary (outlays increased by 7.1 per cent in real terms), unemployment rate increased to a new peak of almost ten per cent, at the same time as inflation rose to 11.2 per cent. The Fraser government lost the March 1983 election. The newly elected Hawke government delivered two expansionary budgets in 1983-84 and 1984-85, before adopting a policy of fighting inflation as a priority and delivering five severely contradictory budgets in succession between 1985-86 and 1989-90. Between 1976-77 and 1989-90, there had been five budgets in which Commonwealth outlays fell in real terms. By this time, economic growth in the economy had effectively stopped and another recession had begun. The unemployment rate, which had been falling steadily since 1983-84 (along with inflation), started to increase again in 1989-90, reaching another peak of 10.7 per cent in 1992-93. The rate of inflation, on the other hand, fell to 1.9 per cent in the same year.²

² Commenting on the choice of inflation as the target of macroeconomic policy, John Nevile (1997) observes: 'the groups who benefit from low inflation, and especially by falls in the inflation rate are those who own substantial amounts of bonds and especially financial

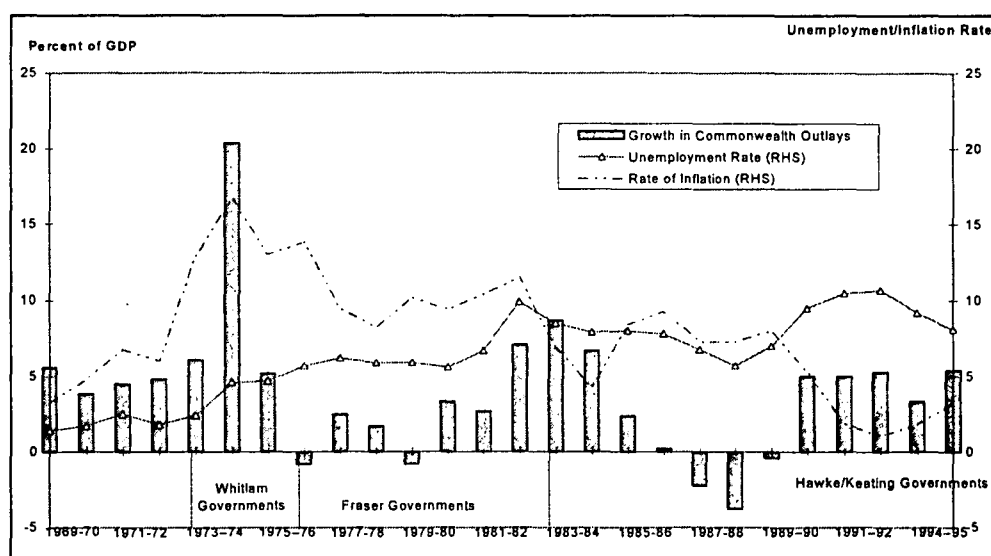


Figure 1: Budgetary Summary and Outcomes

Source: Derived from Mathews and Grewal (1967)

Except for the short period between 1983-84 and 1988-89, inflation and unemployment rates in Australia have generally moved in opposite directions (see Figure 1). The period when both inflation and unemployment fell coincided with (and was largely due to) the Prices and Incomes Accord of 1983.³

Although, as noted above, total Commonwealth outlays fell in relation to GDP during this period, outlays on social security and welfare increased from less than six per cent of GDP in 1974-75 to more than nine per cent in 1994-95. The rise in these outlays is shown in Figure 2, along with outlays on health, education, and housing and community amenities. The steady fall in the last category is indicative of a general withdrawal of the Commonwealth from both housing and urban affairs, which were a key feature of the Whitlam Government's policies. Commonwealth outlays on social security and welfare increased in response to the rising numbers of beneficiaries, along with the increasing level of benefits and the introduction of new programs.

institutions. To put it crudely financial markets have a vested interest in low inflation and put much more weight on keeping the rate of inflation low than on reducing the high level of unemployment in Australia.¹

³ Mathews and Grewal (1997) have observed that during the past two decades, every new peak in the unemployment rate coincided with a change in the Commonwealth Government, the only exception being the peak in 1992-93 when the proposed tax reforms under the Fightback! Package of the coalition parties contributed, among other reasons, to their failure to win the 1993 election.

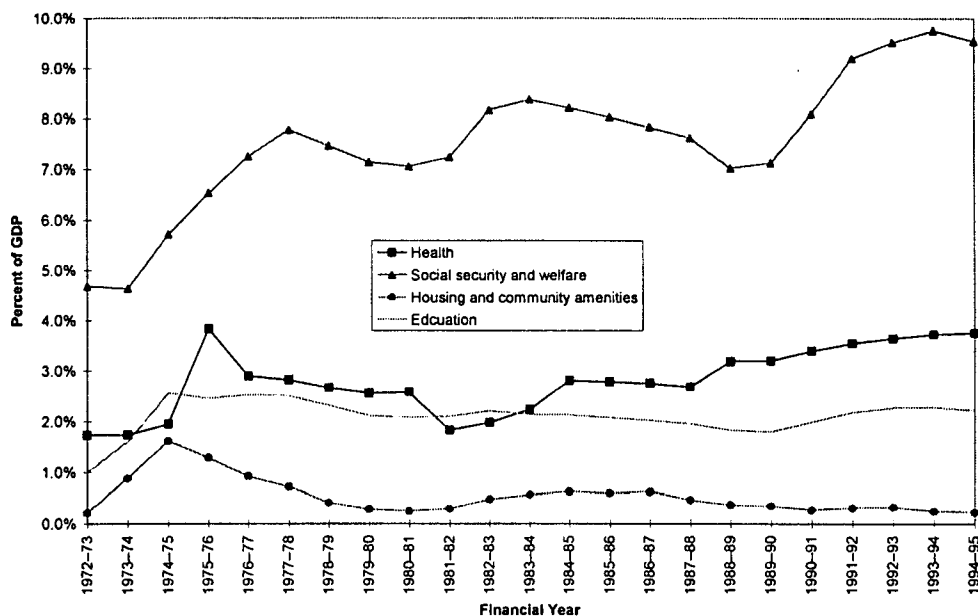


Figure 2: Commonwealth Outlays by Major Purpose (% of GDP)

Source: Same as for Figure 1.

The composition of Commonwealth outlays on social security and welfare is shown in Figure 3. Here, the dominating positions of old age pensions, unemployment benefits and, in recent years, the steady increase in family and child benefits, are evident. As the last category includes a variety of programs of assistance, including the Basic Family Payment, Additional Family Payment, Sole Parent Pensions and Allowances, Home Child Care Allowance, Child Care and Other Child Payments, the growth of outlays under this category has been affected by a combination of demographic, social and workplace changes that have occurred in recent years.

That the major thrust of the Commonwealth government's policy of fiscal restraint was borne by the States is evident from Figure 4. Commonwealth payments to or for the States fell from 11.2 per cent of GDP in 1975-76 to 7.1 per cent in 1994-95. During the Fraser period, the new federalism policy targeted specific purpose payments for reduction and absorption into general purpose payments. General revenue payments, called tax sharing grants in this period, generally escaped similar reductions as they were protected by several guarantee arrangements.

The situation was reversed during the Hawke and Keating period, when severe cuts were applied to general purpose payments with the result that specific purpose payments increased to more than 50 per cent of total net payments. The rise in the share of specific purpose payments also reflected the introduction of new intergovernmental agreements in relation to Home and Community Care, Supported Accommodation Assistance Program, Commonwealth Disability

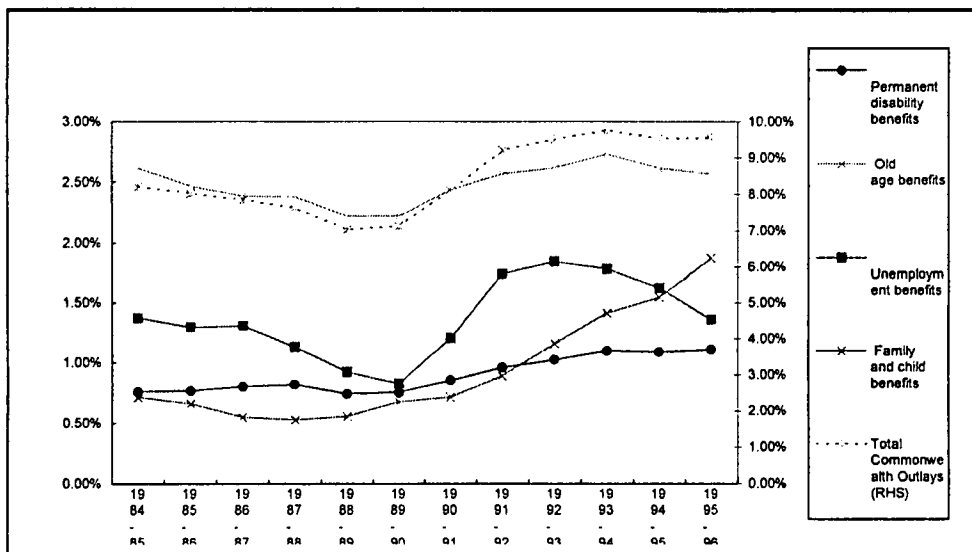


Figure 3: Commonwealth Social Security and Welfare Payments Major Components (% of GDP)
 Source: Same as for Figure 1.

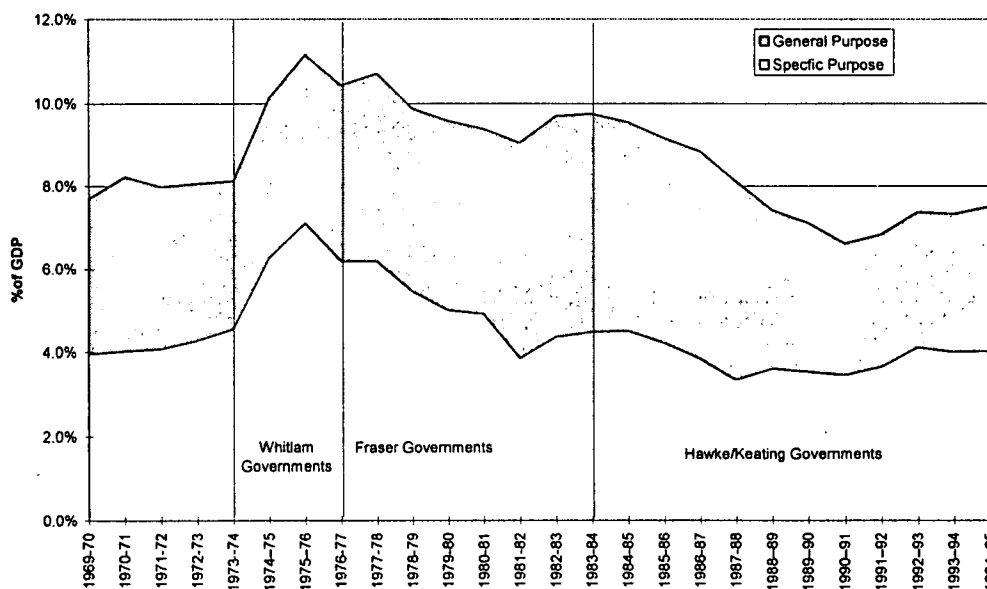


Figure 4: Commonwealth Payments to States and Territories as % of GDP
 Source: Same as for Figure 1.

Services Agreement and the agreement to extend core fringe benefits to all Pensioner Health Benefit Card holders for which the States are compensated by the Commonwealth.

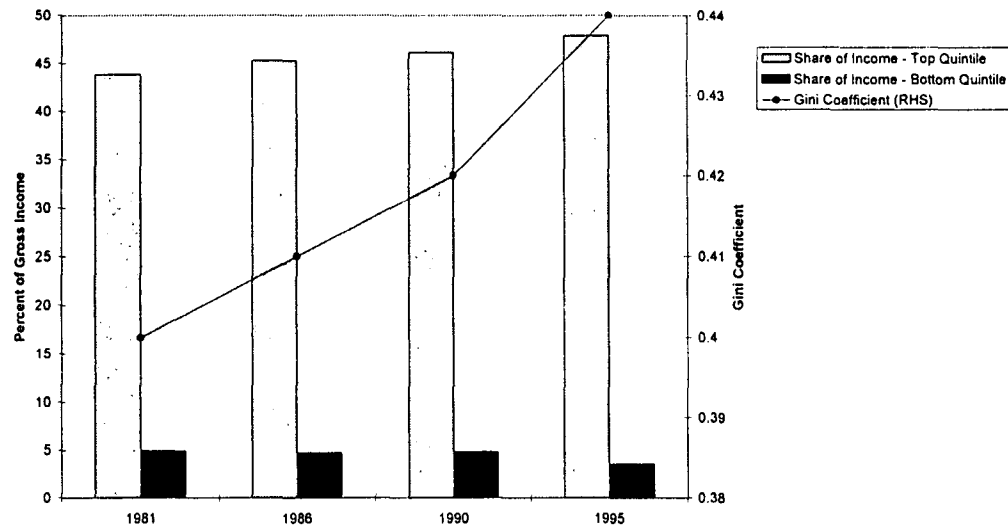


Figure 5: Summary Measures of Income Inequality - Australia

Source: Australian Bureau of Statistics: Australian Social Trends, 1995, 1997 Cat. 4102.0. Social Indicators Australia 1992, 4101.0

3. INCOME INEQUALITY

It has been noted above that while successive Commonwealth governments remained obsessed with fighting inflation during these two decades, unemployment rose and remained stuck at unacceptably high rates. At the same time, income inequality in Australia has also been on the rise, particularly since 1990. As is shown in Figures 5 and 6, the share of household income received by the top quintile of households increased from 43.9 per cent in 1981 to 47.9 per cent in 1995. During the same period, the share of household income received by the bottom quintile fell from 4.9 per cent to 3.6 per cent (Figure 5). The same information is shown by the increasing values of the Gini coefficient.

The differences in Gross State Product (GSP) per capita in the six States, along with their respective mean Gini coefficients in 1994-95 are shown in Figure 6. A number of points are worth noting. New South Wales is shown to have both high income per capita and relatively high income inequality. Tasmania, on the other hand, shows low levels in both the level and distribution of income. Queensland's level of income is the same as South Australia's but its distribution of income is comparatively more unequal. Western Australia has a relatively high income per capita and a low measure of income inequality. To the extent that differences in the level and the distribution of income reflect demand for social welfare services across the States, information provided in Figures 5 and 6 indicates noticeable differences in underlying demand.

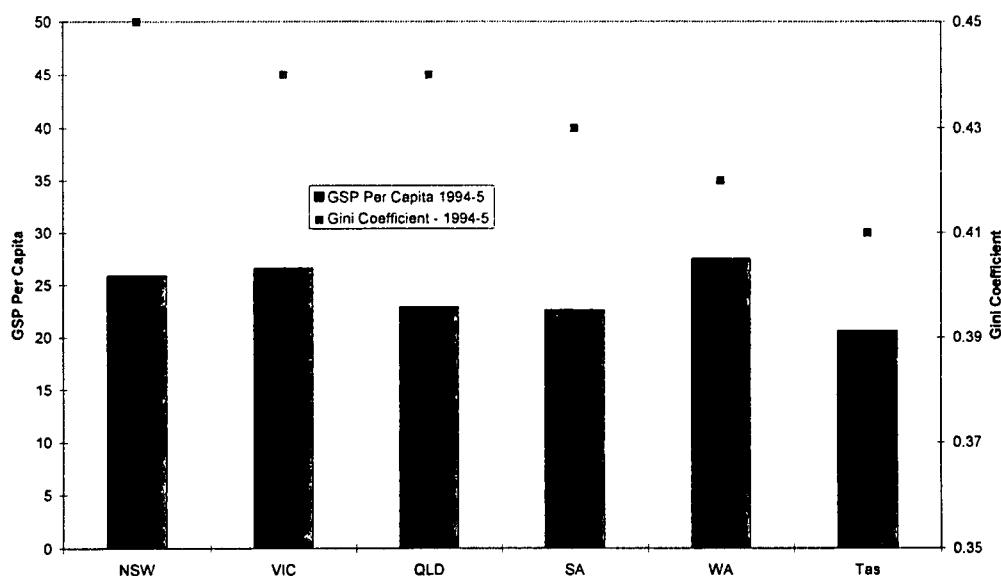


Figure 6: Measures of Income Inequality - States and Territories, 1994-95

Source: Australian Bureau of Statistics, Social Trends, 1997, Cat. No. 4102.0

The measures of inequality at the national and State levels hide more substantial differences within States and between cities. This is illustrated in Figures 7 and 8 below, where indexes of socioeconomic disadvantage in 1986 and 1991 have been used to compare the distribution across States and cities of the most disadvantaged groups.⁴

Between 1986 and 1991, concentration of disadvantage increased markedly in Victoria and Tasmania, and to a lesser degree in South Australia, Western Australia and the ACT, while it fell sharply in the Northern Territory, and slightly in Queensland (see Figure 7).

Even greater variation can be seen in the distribution of low SEI population by urban centres (Figure 8). Among the larger centres, Cairns stands out as having a disproportionately high proportion of low SEI population in both 1986 and 1991, although there was a decline in this proportion. Melbourne showed a marked increase in the proportion disadvantaged and by 1991 was at a level similar to the other capitals, while Hobart and Geelong showed increases of similar magnitude but from a much higher overall level of disadvantage. The proportions with low SEI increased for all the capitals and declined substantially only for the Gold Coast and Central Coast urban areas.

⁴ The definition of 'disadvantage' used here is based on the Socio-Economic Indexes for Areas (SEIFA), calculated by the Australian Bureau of Statistics (ABS) at the Census Collectors District (CCD) level. CCDs were classified as disadvantaged if the value of SEIFA index fell into the bottom quintile of scores in 1986 and/or in 1991.

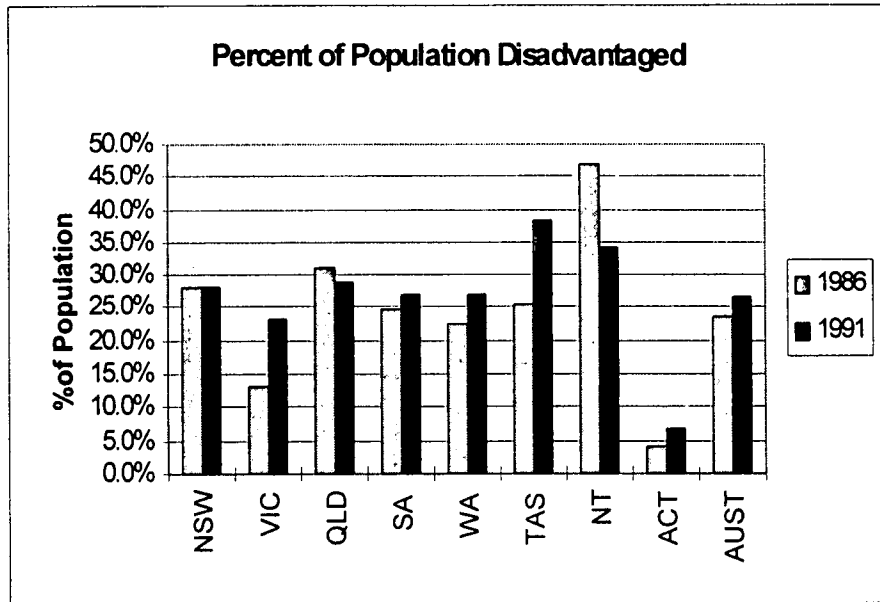


Figure 7: Distribution of Socio-Economic Disadvantage by State 1986 and 1991
 Source: Australian Bureau of Statistics, *Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, Cat. No. 2033.0, 1996.*

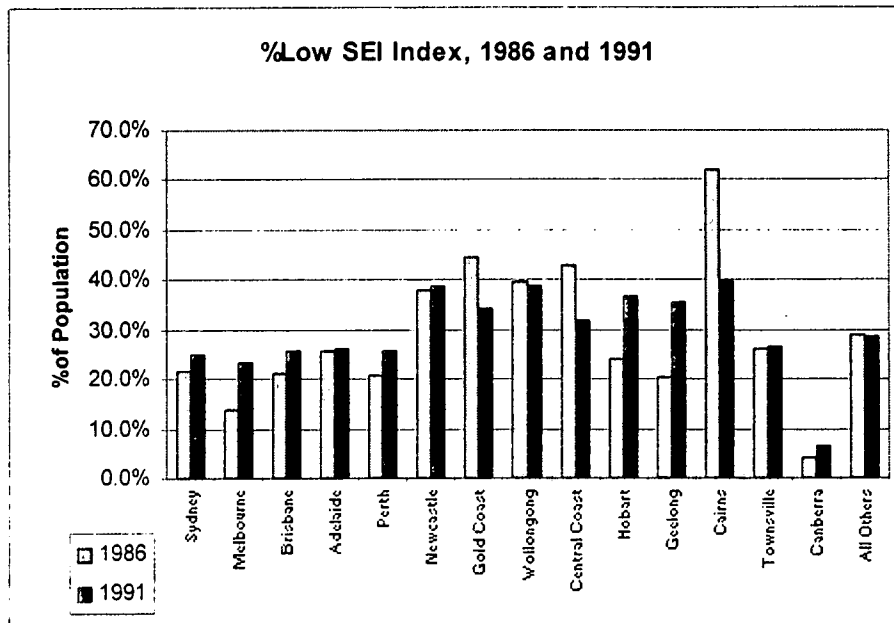


Figure 8: Socio-Economic Disadvantage by Urban Centres
 Source: Same as for Figure 7.

Overall, it can be seen from Figures 7 and 8 that fairly substantial changes in the distribution of economic disadvantage can occur over a five-year period, both between States and between major urban areas within each State.

4. DECENTRALISATION OF SOCIAL WELFARE

Social security and welfare outlays in Australia have been traditionally undertaken by the Commonwealth government; the role of the State and Local governments has been quite small. This is still largely the case. Nevertheless, in recent years, outlays on this function by subnational governments have increased, particularly at the State level. Thus, as a share of GDP State outlays on welfare have increased steadily since 1976-77, but more noticeably since 1984-85 (see Figure 9). Indeed, it is worth noting that, due both to this increase and to the sharp decline in outlays on housing and community amenities, the two functions now attract roughly equal amounts of expenditure, whereas twenty years ago social welfare outlays by the States were only a fraction of outlays on housing and community amenities. Figure 10 shows percentage shares of the three levels of government in Social Security and Welfare outlays. It is clear that, after increasing during the Whitlam period, the Commonwealth's share fell during the Fraser period, rose again briefly in 1983-84 but then fell consistently until 1991-92, after which it has again increased somewhat. That an increase in the States' share of these outlays has occurred to take up the slack in the last decade is also clear, as is the small increase in the share of Local government.

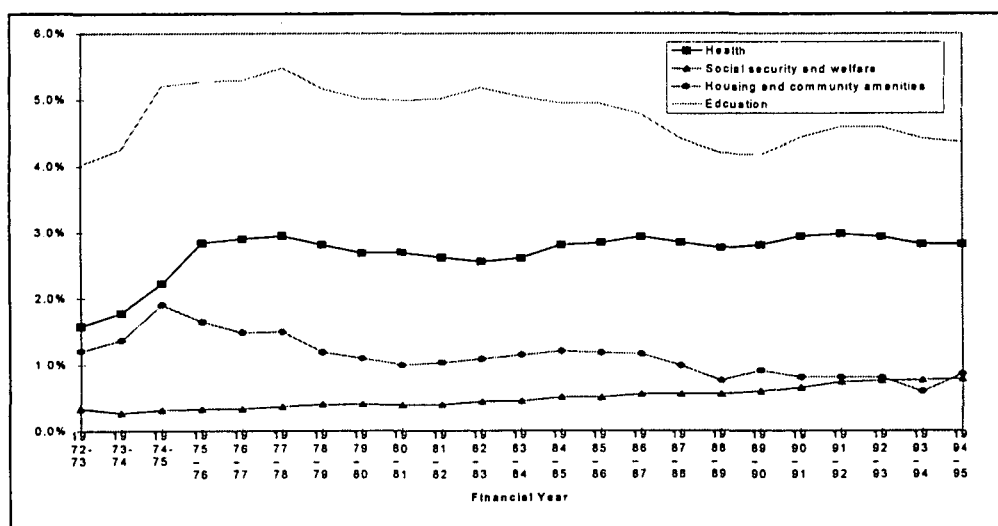


Figure 9: State Outlays by Major Purpose (% of GDP)
Source: Same as for Figure 1.

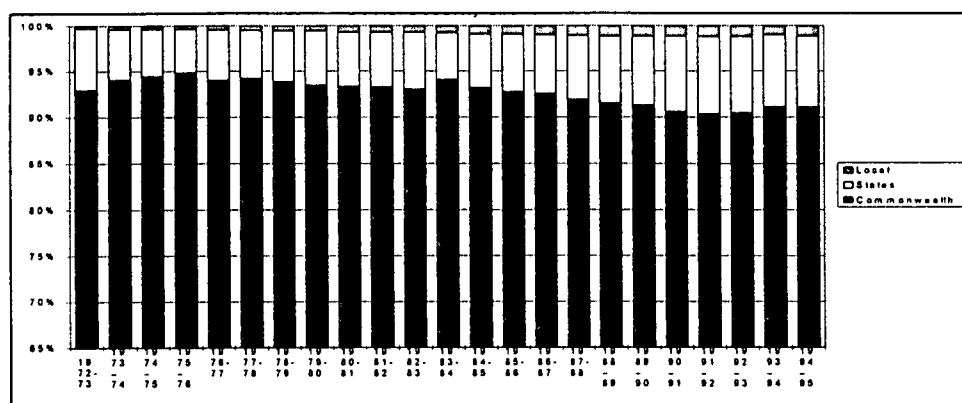


Figure 10: Percent of Total Outlays by Level of Government. Social Security and Welfare

Source: Same as for Figure 1.

Focusing on the period from 1984-85, when greater decentralisation of social welfare commenced, the States' own outlays on Social Security and Welfare increased more than Commonwealth grants for welfare services in 1986-87 and between 1989-90 and 1992-93 (see Figure 11). This was also the same period in which overall Commonwealth payments to the States were severely curtailed. It is clear that during this period, a shifting of priorities in favour of social welfare occurred at the State level. A part of this adjustment is explained in Figure 9 which shows relative reduction in State outlays on housing and related amenities in the same period.

5. INTERSTATE DIFFERENCES IN SOCIAL OUTLAYS

Commonwealth payments to the States for social welfare to individual States are shown in Figure 12 in per capita amounts. There is substantial variation between the States in terms of Commonwealth payments per capita. The States appear to fall into two broad groups. In the first group (New South, Wales, Victoria and Queensland) per capita payments in 1986-87 were at approximately similar levels but diverged after this time, with Queensland moving away from Victoria and New South Wales until 1991-92 whereafter the gap narrowed somewhat.

The second group of States (South Australia, Western Australia, and Tasmania) shows much wider differences in per capita Commonwealth payments, particularly after 1991-92. Western Australia showed a turnaround from being the highest receiver of per capita payments in the early years but slipping to the lowest position after 1988-89. South Australia, on the other hand, received the highest per capita Commonwealth payments since 1990-91 (except for 1992-93 when Tasmania overtook it). South Australia's per capita Commonwealth payments were almost twice the size of Queensland's payments.

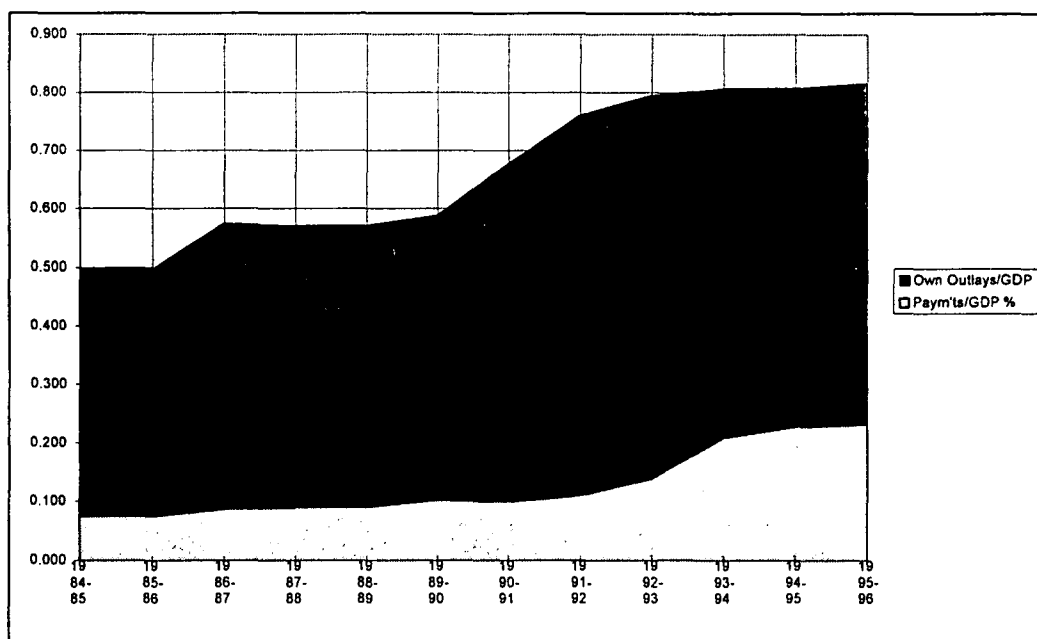


Figure 11: States' Own Outlays and Commonwealth Payments for Social Welfare: 1984-1995

Source: Same as for Figure 1.

A different picture emerges, however, when similar comparisons are made in respect of the States' own outlays for social security and welfare services. South Australia's high per capita Commonwealth payments are not matched by high own outlays. Similarly, Queensland and Tasmania have spent relatively less in this field, although Tasmania has increased its own outlays sharply since 1993-94. New South Wales has not only maintained higher own purpose expenditure than Victoria, but has increased its lead over that State since 1992-93. Western Australia, which received the lowest Commonwealth payments for this category, has been consistently spending higher per capita outlays from the State's own sources (see Figure 12). These differences provide important evidence of interstate differences in need of or priority for social welfare outlays.

The composition of State welfare outlays is shown in Figure 13 where it can be noted that it has also changed over the past decade. At the State level, the importance of family and child welfare, (which has increased substantially at the Commonwealth level) has fallen steadily in favour of welfare services for the aged. The share of the 'other' welfare categories has fallen only marginally. By 1995-96, approximately 20 per cent of combined State outlays were spent on family and child welfare, and a little more than 40 per cent were spent on the aged.

State outlays on welfare services by three main categories are shown in Figure 14 for 1995-96. Some differences between the States are noteworthy, although the pattern is quite similar. Queensland, Western Australia, and the two Territories spent a relatively less on welfare services for the aged and disabled as compared

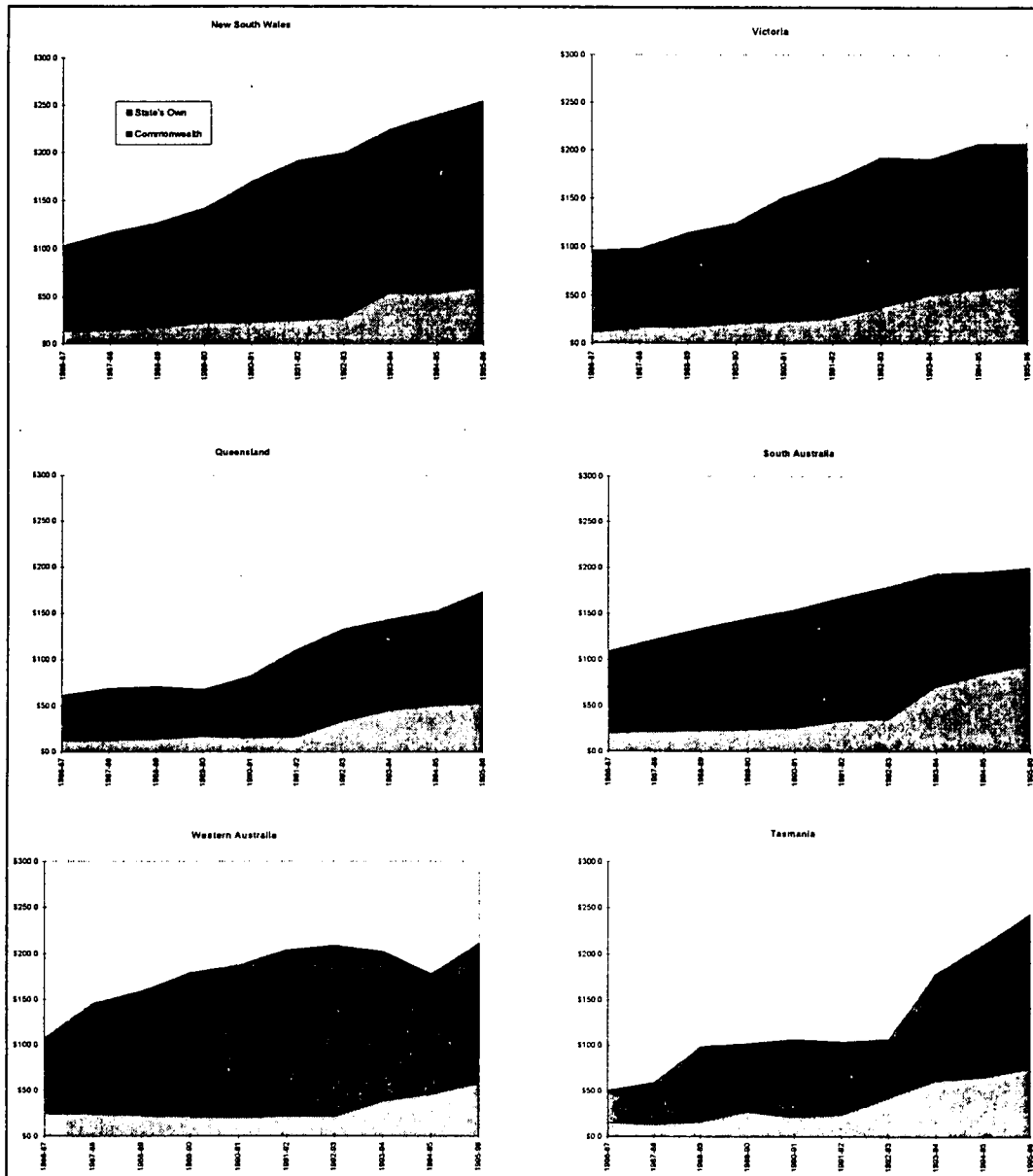


Figure 12: Social Welfare: Commonwealth Grants and States' Own Outlays (\$ per capita), 1986-87 to 1995-96

Source: Same as for Figure 1.

with the other States. In Queensland and ACT, this made way for higher outlays on the 'other welfare' category, while Western Australia and the Northern Territory spent larger shares of their outlays on welfare services for family and children.

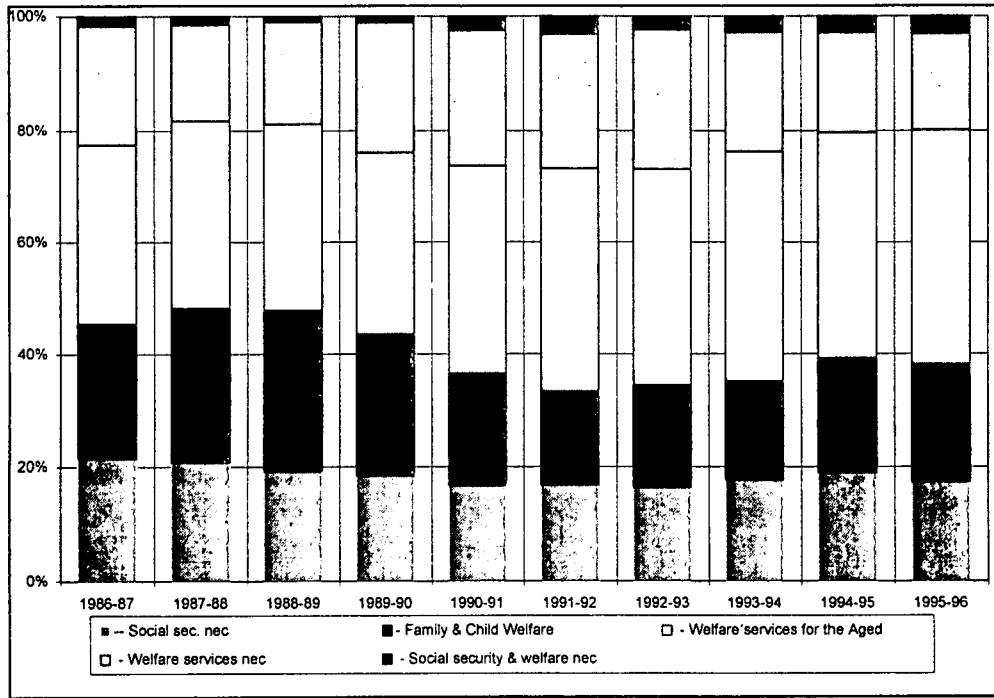


Figure 13: Components of State Social Security and Welfare Outlays: 1986-87 to 1995-96 (% of total outlays)

Source: Australian Bureau of Statistics, unpublished data.

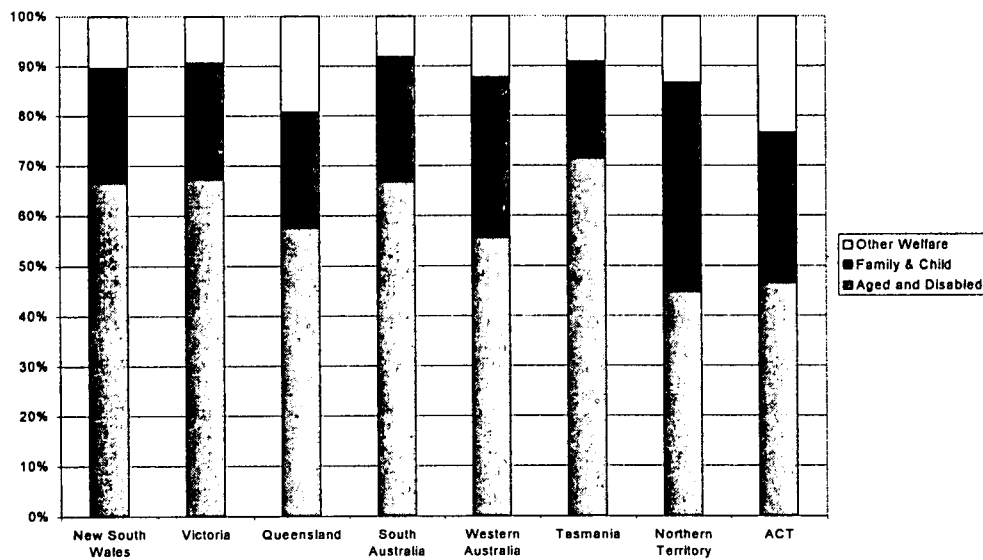


Figure 14: Composition of State Outlays on Welfare Services, 1995-96 (% of total)

Source: Same as for Figure 13.

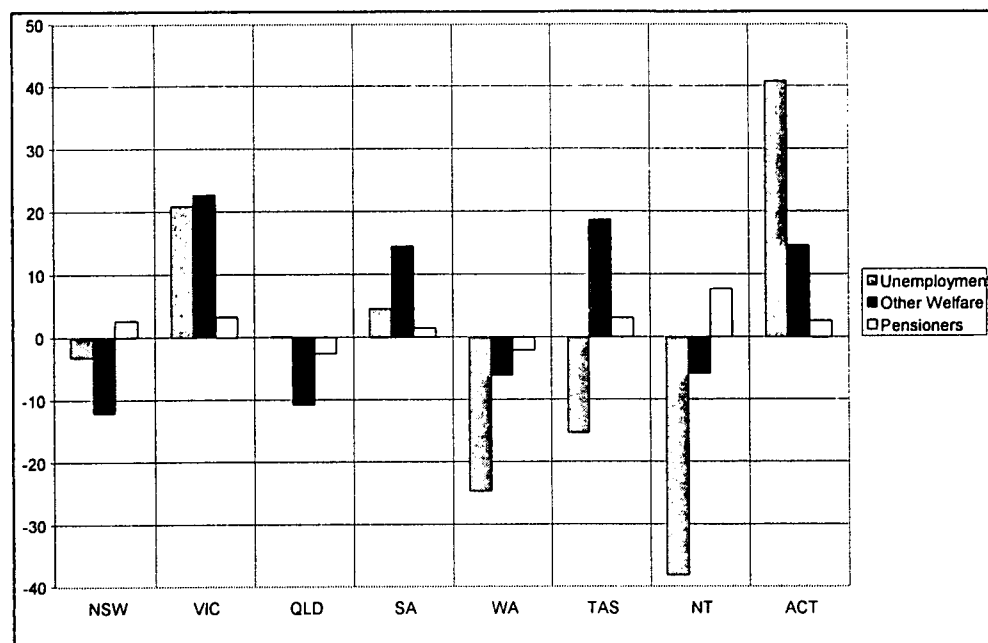


Figure 15: Change in Welfare Beneficiaries per 1,000 (Relative to National Average) 1990-91 to 1995-96 (Index % Change Less National % Change)

Source: Commonwealth Grants Commission: *Report on General Revenue Grant Relativities 1997 Update*, Attachment K.

The way in which State and Commonwealth Governments have responded to these trends in terms is shown in Figure 16. The charts show, on a per-capita eligible population basis, the relative contribution of State and Commonwealth funds for aged and disabled welfare, family and child welfare and other welfare services for 1995-96. It would appear that the Commonwealth specific purpose payments per capita do not vary greatly among the States, although the Northern Territory's figure is high for the 'other welfare' category and Queensland's is low for 'family and child services' (see Figure 16). However, the major variations in the level of per capita funding come from differences in the States' own expenditures. In general, Western Australia has much higher than average per capita spending on welfare services compared to the other States and Queensland has significantly lower. Interestingly, in the family and child welfare services category, the smaller States and the Northern Territory actually spend more from their own sources than the larger States.

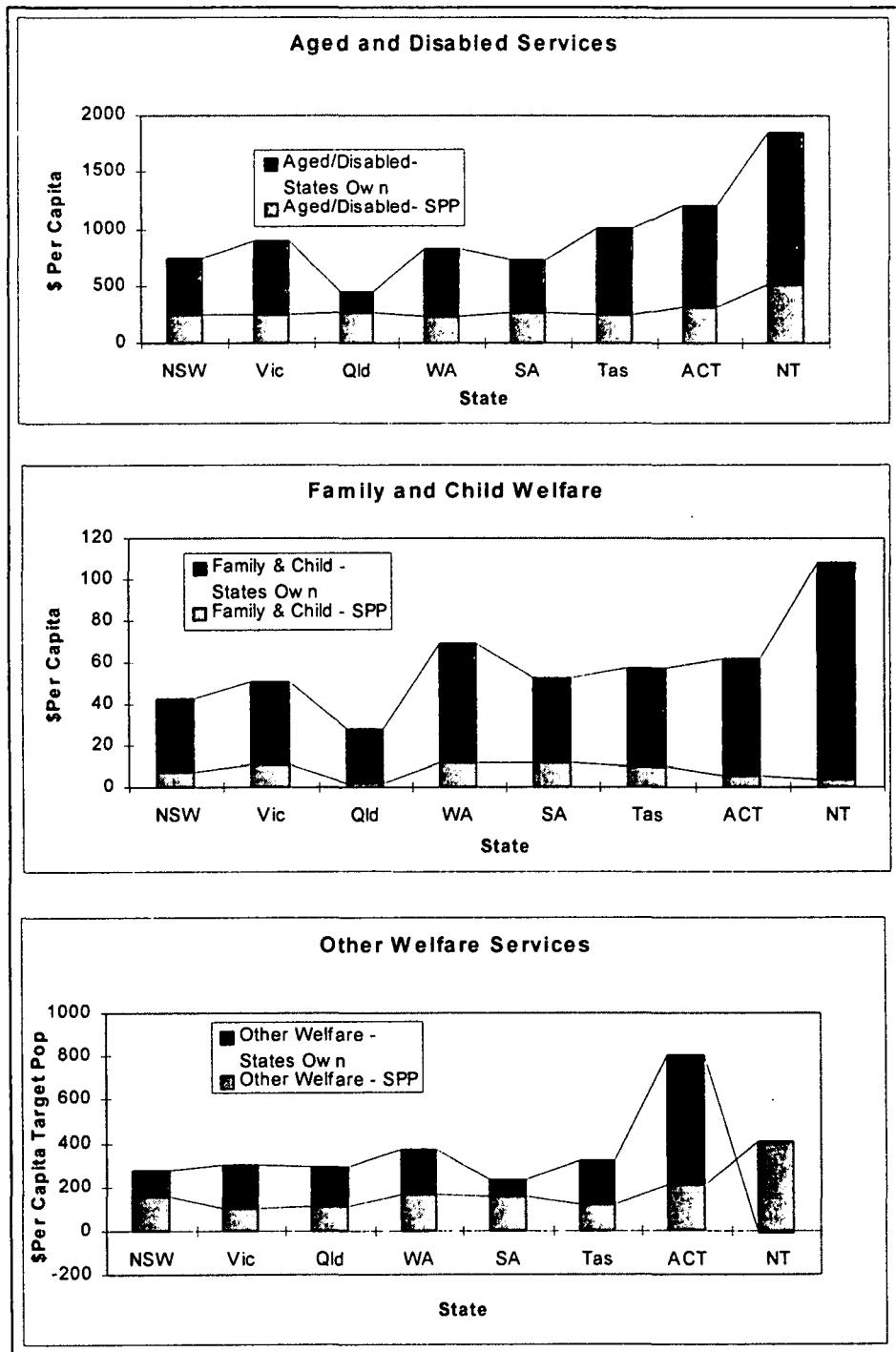


Figure 16: States Outlays and Commonwealth Specific Purpose Payments on Social Welfare Categories

Source: Same as for Figure 13.

6. MOBILITY AND INEQUALITY

It is clear from the previous sections that not only has the States' role in social welfare expenditures increased in recent years (albeit it is still quite small in comparison to the Commonwealth outlays), there is also a wide variety in the levels and composition of State outlays on social welfare.

It is therefore worth questioning the desirability of a decentralised social welfare system in Australia. The traditional wisdom on this question, based on the theory of fiscal federalism, has been that the responsibility for income redistributive expenditures and taxes should remain primarily the responsibility of the national (Commonwealth) government. This argument is based on the possibility of differential subnational (State) policies resulting in substantial shifts of population, which would be most likely to be inefficient (in terms of redistribution of productive capacity) and inequitable (in terms of differential spatial access to Government services). An obvious possibility would be for States to offer incentives/disincentives to some sections of the population in the way of more (or less) services.

On the other hand, there is some argument for further decentralisation of responsibility, based largely on the view that subnational governments may have valid reasons to undertake their own income redistributive policies. In particular factors such as closer links to population needs (when compared to a more remote national government), clearer subnational preferences for income redistribution and the desirability to match service responsibilities with control over funding may all work in favour of decentralisation of responsibilities (for further discussion on this point see Grewal 1981 and Grewal and Mathews 1985).

In the end, it appears that the issue remains critically based on the extent of welfare-motivated migration, and can only be settled on the basis of empirical information on the movements of welfare recipients. There is relatively little information available in Australia on this question, although a recent study indicates that the unemployed and the recipients of 'other welfare' benefits are more mobile, travel much longer distances and contribute significantly to net population redistribution across regions and States than the rest of the population (Wulff and Bell 1997).

The unemployed and the 'other welfare' benefit receiving groups also contribute disproportionately to population redistribution on a regional basis (see Figure 17). Persons on low income (under \$16,000 per annum) comprise less than 12 per cent of all movers but contribute almost 25 per cent of net population redistribution. This is due to the imbalances in the mobility of this group, so that their moves in one direction strongly outnumber moves in the opposite direction. In contrast, for example, moves of the higher income groups from Melbourne to Sydney are closely balanced by moves from Sydney to Melbourne, resulting in only a very small redistribution of population. On the other hand, moves of the unemployed and low income groups from the capital cities to areas such as Far North Queensland and the Gold Coast are not matched by counter moves in the

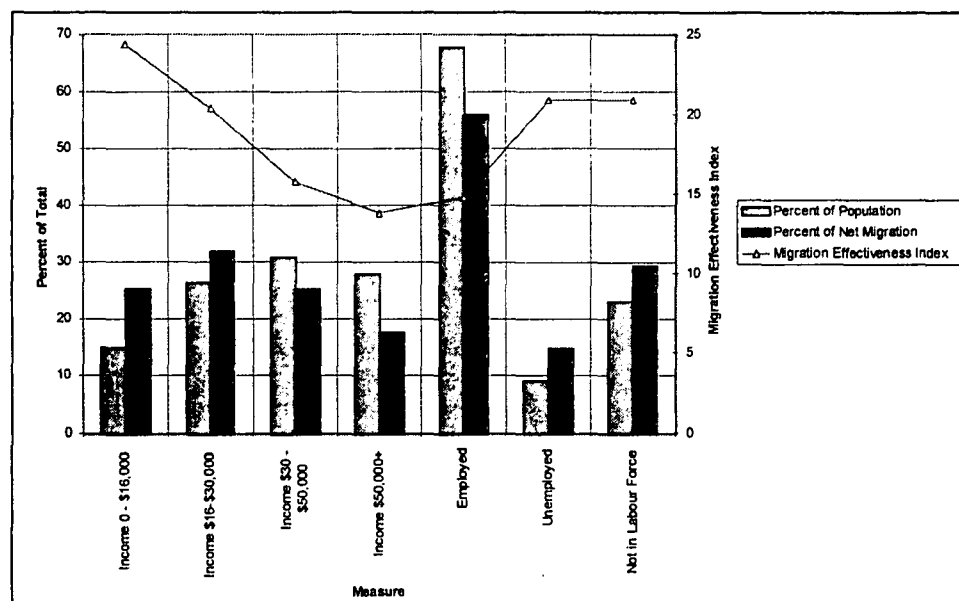


Figure 17: Migration and Population Redistribution

Source: Based on information in Wulff and Bell (1997).

opposite direction. This results in much higher impact on population redistribution in the receiving areas. Wulff and Bell have calculated a Migration Effectiveness Index which summarises the strength of this redistribution. For the unemployed and those not in the labour force the index is approximately 20 percent, which means that a movement of 100 persons will result in a population redistribution of 20. For the employed groups, the corresponding index is less than 15, while it is almost 25 for those on incomes below \$16,000.

While the information is indicative only, it raises some important issues. Firstly, regions (and States) can be differentially affected by migration of the poor and welfare recipient groups. Secondly, current patterns suggest that this movement is to areas which are not growing rapidly in terms of employment opportunities (see O'Connor and Stimson, 1996). Thirdly, many of the moves appear to be related to lifestyle and house price issues, both of which favour some destinations over others.

Without strong national government involvement in population or development at a regional level, the possibility that in future some States might vary the provision of welfare services to 'keep out the poor' cannot be ruled out. This in turn makes it important to examine how the migration behaviour of these groups has affected the balance between the States in terms of social welfare funding and how the picture would look if the current trends continue into the future. While this paper does not examine these issues comprehensively, it provides sufficient pointers underlining the importance of keeping the issues under watch.

7. CONCLUSIONS

It is clear that while the role of the States in social welfare in Australia remains low, it has been on the increase in recent years. Much of this decentralisation of social policy has occurred during the last decade, more sharply in the five years since 1991-92. The change in the role of the State has been a consequence of the Commonwealth government's policy of fiscal restraint, which translated in lower Commonwealth outlays, lower grants to the States, and transfer of responsibility for certain programs to the States, initially with financial compensation but eventually leaving the States to bear a larger burden through growth in demand. Matching specific purpose grants and intergovernmental agreements were used by the Commonwealth to achieve this shift.

Large differences between the States in the level and composition of their own outlays on social welfare have also been observed. As these differences exist on the top of uniform Commonwealth social security benefits, they could be important in triggering interstate migration of welfare recipients. While there is no direct evidence of such migration, results of recent research by Wulff and Bell, and O'Connor and Stimson indirectly suggest a potential for welfare-based migration from between and within States.

A number of questions arise from the picture presented in this paper. Given the firm commitment of the Howard government to fiscal restraint, and given the high rates of unemployment, especially among the young, it appears likely that the States' role in social welfare will continue to expand. This raises the question of the longer-term sustainability of the States' responsibility in social policy, given their extremely limited tax base in comparison to that of the Commonwealth government. The interstate differences in social outlays and their composition raise the further issues regarding the most appropriate means of providing Commonwealth assistance to the States. Another set of questions relates to the viability of decentralised social policy in an otherwise highly homogeneous society like Australia in which the potential for interstate migration is very high.

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